



Shell Canada Limited

1998 *Annual Report*

AR56

Vinspear Business, Inc. (1997-1998)
University of Alberta
1-15 Business Building
Edmonton, Alberta T6G 2R6





Shell Canada Limited is one of the largest integrated petroleum companies in Canada. Shell is committed to discovering and developing hydrocarbon reserves and to providing customers with quality products at a profit to shareholders. The Company's Resources segment is one of the country's largest producers of crude oil, natural gas, natural gas liquids, sulphur and bitumen. Through Shell Canada Products Limited, the Company manufactures, distributes and markets refined petroleum products across the country.

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FINANCIAL HIGHLIGHTS (\$ millions except as noted)	1998	1997	1996
Earnings	432	523	595
Earnings from continuing operations	432	523	326
Cash flow from continuing operations	845	940	750
Capital and exploration expenditures	796	520	442
Return on average capital employed from continuing operations (%)	12.6	13.5	8.8
Return on average capital employed (%)	12.6	13.5	14.8
Return on average common shareholders' equity (%)	13.1	14.8	16.3
Per Class "A" Common Share (dollars)			
Earnings	1.49	1.69	1.77
Earnings from continuing operations	1.49	1.69	0.96
Cash flow from continuing operations	2.91	3.03	2.22
Dividends paid	0.72	0.66	0.60
OPERATING HIGHLIGHTS	1998	1997	1996
Production			
Natural gas – gross (mmcf/d)	587	667	697
Crude oil and bitumen – gross (bbls/d)	22 900	26 500	29 700
Condensate – gross (bbls/d)	24 900	24 600	24 900
Ethane, propane and butane – gross (bbls/d)	30 800	31 300	32 600
Sulphur – gross (long tons/d)	6 600	6 600	6 400
Crude oil processed by Shell refineries (m ³ /d)	41 800	41 200	40 400
Sales			
Natural gas – gross (mmcf/d)	593	704	831
Petroleum products (m ³ /d)	45 000	44 400	43 500
Prices			
Natural gas average plant gate netback price (\$/mcf)	1.89	1.86	1.69
Crude oil average field gate price (\$/bbl)	18.83	25.80	26.14
Condensate average field gate price (\$/bbl)	18.54	26.74	25.55
Ethane, propane and butane average field gate price (\$/bbl)	7.25	10.93	10.02

Unless the content indicates otherwise, the terms Shell, Shell Canada, Shell Canada Limited, Corporation, Company, we, our and its are used interchangeably in this report to refer to Shell Canada Limited and its consolidated subsidiaries.



I am pleased to report that, although 1998 proved to be a challenging year, Shell was one of the most profitable integrated oil and gas companies in Canada. Indeed, 1998 was the second most profitable year in the Company's history for continuing operations. At \$432 million, earnings from operations were \$91 million below those of 1997 primarily due to significantly lower prices for crude oil and liquids.

Before I highlight the Company's achievements, I must mention a tragic loss in 1998 when one of our employees died following a fire at the Montreal East refinery last summer. It was a sad and sobering reminder of the risks inherent in our operations and the challenges to ensure the well-being of all those who work for the Company. Safety continues to be of the highest priority in everything we do.

HIGHLIGHTS

- *Oil Products earnings for 1998 were a record \$275 million, largely due to strong sales volumes and increased retail market share. Shell's downstream business led the competition both in terms of earnings and cost on a cents-per-litre basis.*
- *The retail revitalization program, which started in Vancouver, Calgary, Montreal and Toronto, continued successfully in 1998 with the introduction of our new retail look to 14 locations in Manitoba. Further, Shell successfully introduced in Calgary a new, convenient electronic payment device for speedy service in fuelling called easyPay™.*
- *Scotford refinery maintained its position of industry leader with more than 98 per cent operational availability, and Montreal East refinery achieved a record financial performance in 1998.*
- *Construction of the Sable project offshore Nova Scotia continued on budget and on schedule to bring natural gas to market by early 2000. Shell has a 31.3 per cent interest in the project.*
- *Plans for the three elements of the Oil Sands project, namely the Muskeg River mine on Lease 13 in the Athabasca region of Alberta, an upgrader at Shell's Scotford site and the Corridor pipeline, proceeded on schedule.*
- *Caroline complex continued to make a significant contribution to the bottom line. Operational improvements enabled the plant to operate above its original design throughput while continuing to meet environmental standards.*
- *Improved seismic technology helped to add new reserves through our interests in wells in the Wildcat Hills area of southern Alberta. Two new wells were tied in to our Jumping Pound complex and began producing in the third quarter of 1998.*
- *Exploration activity in the Nig and Ring areas of northeastern British Columbia and the Simonette area of northern Alberta produced encouraging results, which we will pursue in 1999.*

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Members of Shell Canada's senior management team, from left to right: Ray I. Woods, Senior Operating Officer – Resources; Neil J. Camarta, Vice President – Oil Sands; Ron B. Blakely, Chief Financial Officer; Charles W. Wilson, President and Chief Executive Officer; Rob J. Routs, Senior Operating Officer – Oil Products.

ENVIRONMENT

The oil and gas industry confronted several environmental issues in 1998, most notably climate change. Shell strongly supports precautionary, prudent action now to avoid future climatic problems. We favour the gradual phasing-in of policies for the reduction of greenhouse gas emissions to minimize the economic and social impact of such policies. In the meantime, Shell remains committed to the Voluntary Challenge and Registry Program and will continue to work with governments and other sectors of society to protect Canada's interests. Last year, the annual reduction in carbon dioxide emissions increased by an estimated 800,000 tonnes.

On a regulatory note, the federal government announced in October 1998 that the level of sulphur in gasoline must be reduced to an average of 150 parts per million (ppm) by 2002 and 30 ppm by 2005. Scotford, our newest refinery, already meets the initial requirement and needs minimal investment to meet the 2005 target. The Sarnia and Montreal East refineries will need significant work and investment to meet this regulation.

LOOKING AHEAD

We expect natural gas prices to strengthen slightly versus 1998 levels, but we are planning for oil prices to remain weak at levels below U.S. \$15 per barrel (West Texas Intermediate) for 1999 and 2000. Given this pricing outlook, we will pursue our investment plans cautiously over the next year. Both of our major growth projects, Sable and Oil Sands, are robust at these levels of pricing. However, these projects will require significant capital investment over the next few years and we must manage our overall spending plans prudently during this period. The base businesses within Resources and Oil Products present many attractive investment opportunities and we will continue to pursue those projects that offer rapid payout and superior returns. Investment plans will remain flexible, however, and if the economic environment deteriorates and negatively affects our cash flows, we will be positioned to react quickly to protect our major growth projects.

It remains our long-term target to achieve a sustained 15 per cent return on average capital employed and we have made significant strides towards that goal. However, we will not achieve this target during the period when we expect to invest up to \$3 billion in our Oil Sands project, which will not generate any earnings until after 2002. We will strive to meet and sustain our target for the base business during this time.

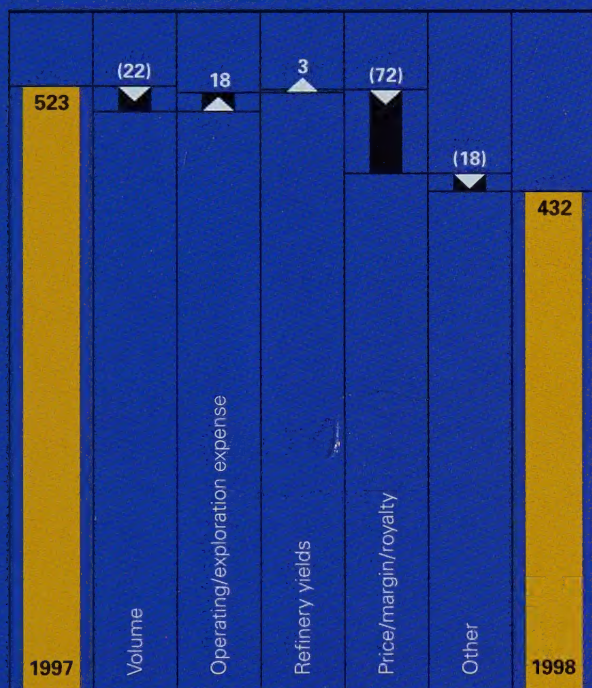
Subject to the flexibility in our plans as outlined, we propose to invest \$4.9 billion over the next five years. In 1999, we expect our capital expenditures to total \$930 million, with \$280 million for Sable and \$260 million for Oil Sands, assuming the latter project receives the go-ahead in the third quarter.

EARNINGS FROM CONTINUING OPERATIONS (\$ millions)



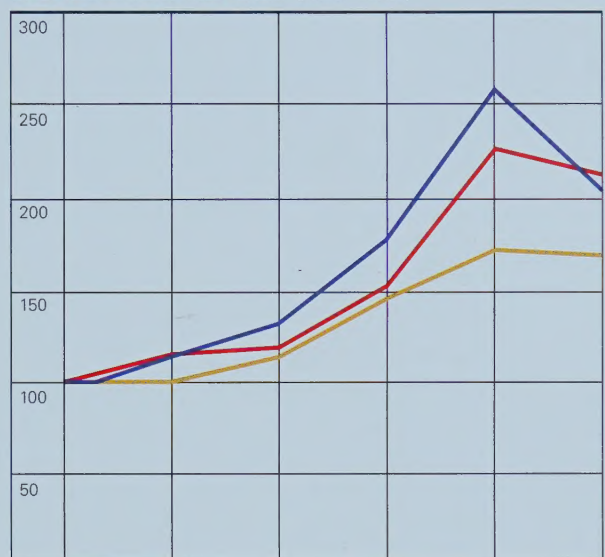
With earnings of \$432 million, 1998 was the second most profitable year in the Company's history for continuing operations.

EARNINGS ANALYSIS (\$ millions)



Reduced operating costs partially offset lower commodity prices and volume reduction through property sales.

SHAREHOLDER RETURN (index value)



	1994	1995	1996	1997	1998
SHC	114	118	153	227	211
TSE 300	100	114	147	169	166
Integrated Oils	111	132	172	255	204

Total return to shareholders exceeded the TSE 300 and the Integrated Oils Index.

In 1998, Shell had the highest return on average capital employed of all the integrated oil and gas companies in Canada.

RETURN ON AVERAGE CAPITAL EMPLOYED (per cent)



Early in 2000, we expect start-up of the Sable Offshore Energy Project, which will increase our gas production by 25 per cent when it achieves full capacity in mid-2000. Prospects for future growth are good. Shell and its partners are exploring an "area of mutual interest" surrounding the Eastern Nova Scotia Shelf, which offers significant exploration opportunities beyond the current Sable fields. We plan to spend more than \$1 billion in Atlantic Canada over the next five years.

We are optimistic about the future of our Oil Sands project, which is proceeding well. Pilot tests of our innovative technology have yielded positive results and the final regulatory hearing for the pipeline is scheduled for March 1999. Our partner in the feasibility study, The Broken Hill Proprietary Company Limited has notified us that they are examining a range of strategic options internally and will decide by mid-year if they will exercise their right to take an equity interest in the project. Other industry partners and financial investors also have expressed interest in becoming project participants. We will continue to develop the capital cost estimate over the coming months and, with regulatory approvals and a suitable partner or partners, move towards final project approval in the third quarter of 1999.

As our Oil Sands project progresses, we will have to fund it with higher levels of debt. Within a conservative and prudent outlook, we believe that internal cash flows and additional debt can finance the required capital, without affecting our strong credit rating.

Our success over the past years has resulted from our focus on business fundamentals and meeting operational excellence standards. By paying particular attention to targets for the things we can control and the continuous pursuit of best-in-class performance, we have been able to distinguish our financial results within our industry. We can achieve these results only with the help of employees who apply their exceptional skills and abilities in their jobs every day. I thank them for that valued contribution to our success.

Later this year, I shall retire from Shell. It has been a privilege to guide Shell Canada over the past six years, a time of significant change for the Company and for the industry. This has been a gratifying period in my career and I would like to thank all our shareholders, members of the Board and Shell employees for their support during my time as President and Chief Executive Officer. I wish you all much success in the future.

On behalf of the Board,



C.W. WILSON

*President and Chief Executive Officer
Calgary, Alberta*

March 1999



Shell Canada's earnings from operations for 1998 were \$432 million, or \$1.49 per Class "A" Common Share, compared to earnings of \$523 million or \$1.69 per share for 1997. The 1997 record results included a \$67-million income tax settlement and related interest. Decreased earnings in 1998 resulted primarily from lower commodity prices and reduced volumes associated with asset divestments in Resources. Higher earnings from increased sales volume in Oil Products partially offset the decrease.

Return on average capital employed was 12.6 per cent in 1998 compared to 13.5 per cent in 1997. Cash from operations (before movements in working capital) decreased to \$845 million from \$940 million for the same period in 1997.

Capital expenditures in 1998 were \$796 million compared to \$520 million in 1997.

Management's Discussion and Analysis includes the discussion of Resources, Oil Sands, Oil Products and Corporate activities up to and including page 36.



Resources earnings for 1998 were \$169 million compared to \$264 million in 1997. The earnings declined primarily due to lower prices for crude oil and natural gas liquids as well as reduced volumes resulting from asset sales. Return on average capital employed was 9.6 per cent in 1998 compared to 15.3 per cent in 1997. Resources capital and exploration expenditures were \$509 million in 1998 compared to \$352 million in the previous year.

NATURAL GAS

Low prices at the end of 1997 continued into 1998 with the mild winter weather. Prior to 1998, Alberta prices tended to be much lower than U.S. and eastern Canadian prices because the province produced more gas than the out-of-province pipelines could carry. The availability of the excess gas stored during the mild 1997 North American winter caused prices to fall significantly in 1998.

Towards the end of the year, Alberta prices improved against the rest of North American prices mainly in response to the addition of 1.1 billion cubic feet of capacity to existing export pipeline systems. This development significantly reduced the oversupply in Alberta, narrowing the price discount at which Alberta gas had been trading relative to other North American markets.

Following Alberta's prices, Shell's plant gate prices rose from \$1.35 per thousand cubic feet (mcf) early in the year to more than \$2.50/mcf in the fourth quarter. This resulted in an average price for the year of \$1.89/mcf, which was slightly higher than the corresponding 1997 average plant gate price of \$1.86/mcf.

Total production for the year was 587 million cubic feet of gas per day (mmcf/d), down from the 1997 figure of 667 mmcf/d primarily due to the divestment of Shell's northeastern British Columbia property in January 1998. Shell's gas production will come solely from the western Canadian foothills and plains areas until the Sable project comes on stream in early 2000. Utilization of the Company's facilities remains generally high despite their maturity.



Ralph Gorby, manager of Community Liaison for Sable Offshore Energy Incorporated, visits the small fishing village of Coddles Harbour, Nova Scotia. A few kilometres west of Coddles Harbour lies Goldboro, where the Sable Offshore Energy Project's onshore gas processing plant is under construction.

It is important to the project, in which Shell Canada has a 31.3 per cent interest, that the people of Nova Scotia, particularly those who live in the project's neighbouring communities, understand the benefits and effects of the province's first natural gas development. Community Liaison provides residents with an opportunity to have their concerns considered during project planning, development and operation.

CRUDE OIL AND BITUMEN

Crude Oil Crude oil prices fell steadily throughout the year. Demand slowed, particularly in Asia where several major crude oil consumers responded to a severe economic recession. Although OPEC announced steps to bring production in line with demand, these were not successful. As a result, prices fell to around U.S. \$11.50 per barrel (West Texas Intermediate) by year-end, the lowest for many years. With the present high inventories of crude oil and finished products, a sustained price increase is unlikely for some time to come.

Bitumen The decline in crude oil prices also affected bitumen prices, which were extremely low in the first half of 1998. Bitumen prices made a modest recovery toward the end of 1998 in response to reduced heavy crude oil production.

NATURAL GAS LIQUIDS

Generally, natural gas liquids prices followed crude oil prices downwards as demand fell and inventories grew. Ethane prices are tied more closely to natural gas values than are other liquids prices and, as a result, were the most stable through the year. Propane inventories were high at the beginning of the year. Demand slowed but supply remained high, resulting in a fall in prices. The major demand for propane comes from the need for heating in cold winters and for drying crops in wet summers. The mild winter and dry summer in 1998 all but eliminated this demand. Butane prices tracked crude oil and gasoline values and, as a result, declined steadily over the year.

Condensate Condensate prices tend to track crude oil prices, but they declined more steeply than crude prices in 1998. This was a result of reduced heavy oil production and a corresponding reduction in demand for condensate as a heavy oil diluent.

Total production of gas liquids for 1998 was 55,700 barrels per day. Shell is one of Canada's largest gas liquids producers.

SULPHUR

Sulphur prices softened substantially in 1998 due to an imbalance between supply and demand. However, following their steep decline in the first half of the year, prices levelled off in the second six months as earlier price reductions decreased oversupply. For the year overall, Vancouver prices ranged between U.S. \$22 to \$26 per tonne compared with an average price of U.S. \$35 per tonne in 1997.

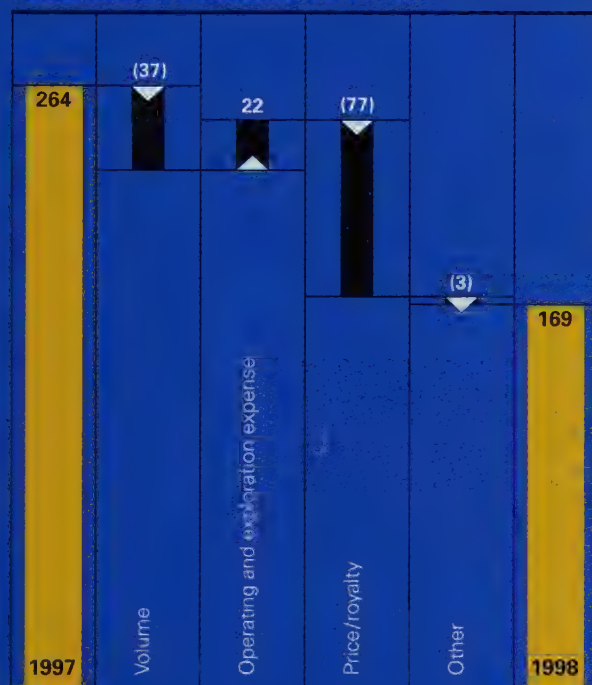
Gross sales from Shell's own sulphur production in 1998 were 6,400 long tons per day, slightly lower than the record sales of 6,900 long tons per day in 1997. In 1998, the Company maintained its position as one of the world's largest producers and marketers of sulphur.

GROSS NATURAL GAS SALES (millions of cubic feet per day)



Loss of available production volume through property sales reduced natural gas sales.

RESOURCES EARNINGS IN 1998 (\$ millions)



Reduced operating costs partially offset lower crude oil and natural gas liquids prices and lower natural gas volumes.

Resources Highlights

(\$ millions except as noted)	1998	1997	1996
Revenues	741	969	1 053
Earnings	169	264	292
Capital employed	1 816	1 696	1 759
Capital and exploration expenditures	509	352	278
Return on average capital employed (%)	9.6	15.3	16.7

Natural gas liquids production remained at the previous year's levels.

GROSS PRODUCTION OF NATURAL GAS LIQUIDS (thousands of barrels per day)



EASTERN CANADA

Sable Offshore Energy Project The Sable Offshore Energy Project, which is owned jointly by Shell, Mobil Oil Canada Properties, Imperial Oil Resources Limited, Nova Scotia Resources (Ventures) Limited and Mosbacher Operating Ltd., remains on schedule for start-up early in 2000. Design engineering has been completed, construction of facilities is on schedule and the drilling program is under way.

The project consists of six fields surrounding Sable Island, which lies about 225 kilometres off the coast of Nova Scotia. Development of the project is in two phases. The first phase, which is under way, comprises the drilling and development of three offshore fields. It also includes the construction of offshore processing facilities, subsea pipelines, an onshore gas processing plant, a pipeline for natural gas liquids and a natural gas liquids fractionation plant. The cost of the first phase is on target to be completed for \$2 billion, of which Shell's share will be more than \$600 million.



Sable has added 1.1 trillion cubic feet of natural gas and 46 million barrels of natural gas liquids to Shell's gross reserves. Initial production for the total project will be more than 500 million cubic feet of gas per day for markets in Eastern Canada and the U.S. Northeast.

Each owner is responsible for marketing its own share of the gas. Shell signed an agreement with Nova Scotia Power in 1998 for the sale of 60 million cubic feet of gas per day. Negotiations for the sale of the remainder of the gas are ongoing with several potential customers.

Frontier Exploration A number of important accomplishments in 1998 positioned Shell for future growth in the East Coast frontier region. The Company executed an Area of Mutual Interest agreement for extensive exploration in the Sable sub-basin (40 per cent net Shell interest). In addition, Shell acquired two joint off-shore exploration licences. The Banquereau licence gives Shell exploration rights on 127,000 net acres on the Eastern Nova Scotia Shelf, while the Cree licence gives the Company 23,000 net acres in the western portion of the Sable sub-basin. The prospects offshore Nova Scotia remain attractive, encouraging the pursuit of additional opportunities in the Sable sub-basin and Nova Scotia deep water.

Under a farm-in agreement, Shell has committed to drill four wells on Anticosti Island, two of which were completed and declared dry in 1998. The program continues with the shooting of 400 kilometres of seismic to establish a location for a third well in 1999 and, subsequently, a fourth well. Shell has a 50 per cent interest in the program.

WESTERN CANADA – FOOTHILLS

Caroline Operational improvements resulted in record plant throughput for 1998. A liquids acceleration project continued to maximize production volumes, partially offsetting the effect of price decline. A workover program to ensure the maintenance of deliverability has been successful.

Limestone Mountain An aggressive infill drilling program to develop further reserves and raise production levels began in early 1998. Three successful wells have been drilled and tied in with the expectation of continued drilling and extension of the program in 1999.

Waterton Increased production from the north end of Waterton has helped to offset decline from the original fields. This, together with new third-party volumes, has enabled the plant to maintain throughput at its design capacity.

Foothills Exploration Two new-pool discovery wells were drilled in the foothills region, west of the Wildcat Hills unit. These wells were completed and tied in as sour gas producers, with estimated net reserves to Shell of 50 billion cubic feet.

WESTERN CANADA – PLAINS

Hamburg Effective utilization of gas plant capacity remained a concern in 1998. An exploration program in 1999 will concentrate on finding sufficient reserves to increase plant throughput to its rated capacity.

Midale A horizontal drilling and water injection program enabled this mature field to reach a ten-year high crude oil production level of 5,300 barrels per day in 1998.

Peace River Low prices, particularly in the first half of 1998, created a difficult environment for the Peace River in-situ oil sands operation. In response, Shell's 1998 operations focused on sustaining bitumen production while reducing operating costs. Steam injection into lower-productivity wells drilled during the 1980s was halted, which reduced operating costs. Shell expects to shut in these wells permanently by the year 2000, as their production declines below economic levels.

RESOURCES UNIT COSTS (\$ per barrel-of-oil equivalent)

Unit operating costs benefited from lower plant and field costs, particularly at Peace River.



The 1997 investment program to drill new-technology soak radial and steam assisted gravity drainage (SAGD) wells was completed as planned in early 1998. The combined increase in production from the 1996 and 1997 soak radial and SAGD well programs enabled overall bitumen production to return to levels that had not been achieved since 1991. However, in response to declining commodity prices, Shell postponed the proposed 1998 program, which included drilling more soak radial wells and debottlenecking the plant. In 1999, the Company will continue to evaluate the possibility of increasing the number of producing wells using soak radial technology, plant debottlenecking and an electricity cogeneration project to reduce costs.

Virginia Hills / House Mountain Forest fires in both fields temporarily shut in crude oil production during the summer of 1998. Shell personnel were able to safely and successfully shut down the plant facilities and restore full production within two weeks.

Plains Exploration In 1998, the Company revitalized its existing Plains exploration program and created a corresponding technical/commercial team to enhance Shell's conventional oil and gas activities east of the Rocky Mountain foothills. The 1998 results from this new exploration team were encouraging. From a drilling program of 20 exploration wells, eight were classified as discoveries. Discoveries with limited potential to become core properties for the Company were sold, realizing \$20 million.

EXPLORATION PROGRAM COSTS

Shell's exploration program totalled \$83 million in 1998 compared to \$72 million in 1997. Exploration activities, including seismic and drilling, focused on selective participation in deeper plays in the Western Canada Sedimentary Basin and on new opportunities in the Eastern Canada frontier.

GROSS PRODUCTION OF CRUDE OIL AND BITUMEN (thousands of barrels per day)



Crude oil production fell following property sales in 1997.

RESERVES

Gross proved hydrocarbon reserves fell slightly as the addition of new reserves from extensions and discoveries failed to match the reduction of reserves through production and property sales. Based on the 1998 natural gas production, which was lower than the 1997 production due to property sales, the natural gas life index now stands at 15 years, one year longer than in 1997. Gross natural gas liquids reserves fell due to both production and negative revisions to existing reserves. Revisions to previous crude oil estimates offset the year's production and the life index increased to 13 years because of lower production as a result of property sales in 1997.

Proved Developed and Undeveloped Reserves

	Crude Oil & Bitumen (millions of barrels)		Natural Gas Liquids (millions of barrels)		Natural Gas (billions of cubic feet)		Sulphur (millions of long tons)	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
1994	100	84	243	223	2 914	2 494	28	27
1995	126	105	233	211	2 826	2 411	28	27
1996	193	153	197	161	2 628	2 053	26	24
1997	186	170	235	212	3 399	3 010	26	24
1998	185	170	206	183	3 256	2 771	23	21

LOOKING AHEAD

Resources objective is to achieve and sustain a 15 per cent return on average capital employed on the base business by the year 2000. Robust financial performance in the base business will firmly position Resources to pursue growth opportunities in Canada's frontier areas.

Strategies Resources will emphasize four key areas for future profitability and growth:

- *continue the aggressive development schedule for the Sable Offshore Energy Project while positioning for growth in other frontier opportunities;*
- *continue to invest in opportunities that leverage existing sour gas infrastructure in the Alberta foothills;*
- *continue the revitalized Plains exploration program;*
- *maximize the value of the conventional oil portfolio through selected investment and disposition, while positioning the Company to progress the Peace River opportunity.*

Capital and Exploration Investment Shell plans capital expenditures in Resources of \$509 million in 1999. The Company has allocated \$110 million on exploration and \$395 million for development, including \$280 million for the Sable Offshore Energy Project. Total planned expenditures for the East Coast (including the Sable project) are \$318 million, while total planned expenditures for Western Canada are \$173 million. Other allocated expenditures, including Technology and Services and Marketing, are \$18 million.



Maintenance coordinator Stuart Derbyshire inspects part of the tailings solvent recovery unit at Shell's Oil Sands pilot plant north of Fort McMurray, Alberta. This component of Shell's extraction process removes the solvent used in extraction before tailings are sent to a settling basin. Pipes carry solvent vapours to exchangers where the vapours are condensed into liquid solvent, which is recycled and reused rather than released as effluent.



Shell's proposed Athabasca Oil Sands development is one of the largest projects in Canada in recent years. It includes the Muskeg River mine north of Fort McMurray, Alberta, the Scotford upgrader near Edmonton, Alberta, and the Corridor pipeline, which will link the two. The total investment is an estimated \$3.8 billion.

MAJOR GROWTH OPPORTUNITY

Shell's Athabasca Oil Sands holdings provide the foundation for a significant growth opportunity. At the initial planned production level of 150,000 barrels per day, the Oil Sands project will almost triple Shell's current liquids production. This production level could be sustained for more than 30 years based upon the 1.6 billion barrels of proved reserves at the Muskeg River mine site. These reserves, when booked, will increase the Company's reserve base fivefold. Shell's Athabasca Oil Sands leases contain an estimated total of six billion barrels of proved, economically mineable bitumen reserves, which could support an ultimate production level of more than 500,000 barrels per day.

Leveraging Assets The integration of the Scotford upgrader with Shell's existing Scotford refinery is a key economic driver for the project. The new upgrader will supply specially tailored feedstocks to the Scotford refinery. These feedstocks are designed to make the most of the refinery's underutilized hydro-conversion capacity and will allow the refinery to switch its diet away from higher-cost synthetic crude oils currently purchased on the open market. Integration with the existing refinery also reduces the new upgrader's capital and operating costs.

Some of the upgraded crude oils produced by the Scotford upgrader will also be tailored specially for Shell's Sarnia refinery. These custom feedstocks will help Sarnia to meet anticipated new gasoline specifications with a minimum of additional capital.



Status of Project During 1998, the achievement of several major milestones advanced the Oil Sands project:

- *Construction and start-up of a pilot plant was completed on the Muskeg River mine site. The pilot plant tested enhancements to current extraction technologies and a new technology for bitumen cleanup. Shell's proprietary bitumen cleanup process removes virtually all solids and water from the bitumen, resulting in a product that will maximize the yield and throughput of the Scotford upgrader. An upgrader pilot in the United States has tested successfully a bulk sample of this high-quality bitumen.*
- *Regulatory approvals for the Scotford upgrader and Muskeg River mine are expected in early 1999 following public hearings held in late 1998.*

Several major commercial arrangements were put in place:

- *Corridor Pipeline Limited, a subsidiary of B.C. Gas Inc., will build and own the Corridor pipeline to transport bitumen from the Muskeg River mine to the Scotford upgrader. Trans Mountain Pipe Line Company Ltd., also a subsidiary of B.C. Gas Inc., will operate the pipeline.*
- *CU Power International Limited will build, own and operate a cogeneration facility to supply power and heat to the Muskeg River mine.*
- *Commercial arrangements are also in place for feedstock and hydrogen supplies to the Scotford upgrader.*

LOOKING AHEAD

The \$109-million feasibility study, which includes testing of bitumen extraction, cleanup and upgrading technologies, commenced in January 1998 and is scheduled for completion by mid-1999. Successful completion of the study, together with the necessary regulatory approvals, are crucial milestones, which are expected to position the project for approval in the third quarter of 1999. The target for first oil production is mid-2002.

The Broken Hill Proprietary Company is funding 25 per cent of the feasibility study and has an option to take a 25 per cent stake in the project. Other industry partners and financial investors also have expressed interest in becoming project participants.

Capital Investment Shell has budgeted \$65 million in capital expenditures in 1999 to complete the feasibility study and advance the project. Project approval in the summer of 1999 will require additional capital spending of \$195 million during the balance of 1999 for detailed engineering and mine site preparation.



Oil Products achieved record earnings of \$275 million for 1998 compared to \$252 million for the previous year primarily due to increased sales volume. Return on average capital employed was 15.7 per cent in 1998 compared to 14.7 per cent in 1997. Oil Products capital expenditures were \$171 million compared to \$150 million in 1997.

Oil Products is committed to being the profitability leader among integrated oil companies. Shell achieved this goal for the second successive year with earnings of 1.68 cents per litre of product sold, a level that is significantly above that of Shell's major competitors. This compared to a record 1.56 cents per litre in 1997.

Unit operating costs were 4.7 cents per litre, the same as in 1997.

The Canadian economy showed some signs of slowing as 1998 progressed. Nevertheless, the demand for motor gasoline remained robust across the country, whereas growth in diesel demand slowed at the same rate as the economy.

MANUFACTURING AND SUPPLY

Manufacturing and Supply continued to meet or exceed its profitability targets in 1998, despite a significant decline in manufacturing margins in the latter part of the year. In spite of some technical problems at Sarnia and Montreal East, all three Shell refineries continued to perform at or better than the top third of industry benchmarks. The overall energy intensity index, which measures comparative energy consumption by refineries, continued to improve. The 1998 index was the best ever achieved. Shell's distribution terminals continued to operate at first quartile performance levels against industry benchmarks.

Montreal, Quebec Regrettably, in 1998, Montreal East refinery suffered an employee fatality as a result of a fire at a gasoline tank that was out of service for cleaning. This incident overshadowed a year in which the refinery recorded its best ever performance, despite unplanned outages as a direct consequence of the January ice storms. Montreal's reliability returned to former levels after a decline in 1997.



Marc Therrien, a Shell operator at the Company's Montreal terminal, supervises the loading of diesel product into a tanker truck at the terminal's new loading rack. The original rack, built in 1968, was upgraded in 1998 using new technology and a Year 2000-compatible computing system. Each loading arm can accommodate up to 25 different products, allowing a truck to remain in one place while taking on various products. Together with an increased flow rate of 2,500 litres per minute, this enhancement greatly improves the efficiency of loading and delivery. The terminal's throughput will more than double in 1999.

Sarnia, Ontario Sarnia's reliability performance declined significantly compared to that of previous years. A scheduled catcracker turnaround overran its planned start-up date in early summer. Later in the year, a furnace tube failure led to a fire in the hydrocracker and reduced production for 60 days before operations could be fully restored.

Scotford, Alberta Scotford's performance continued to improve from the excellent achievements of the previous year and is now at best-in-class levels in all the benchmarked parameters. The scheduled spring turnaround was a major success, meeting or exceeding all targets. Investments made at that time provided additional capacity, allowing the refinery to supply most of Shell's requirements in Western Canada.

National Gasoline Standard The Benzene in Gasoline Regulation requires a more than 40 per cent reduction of benzene in gasoline. Shell will complete its program to meet the new regulatory requirements in 1999.

Sulphur in Gasoline Regulations announced in 1998 require refiners to reduce the level of sulphur in gasoline to an average of 150 parts per million (ppm) by 2002 and 30 ppm by 2005. The Scotford refinery will need minimal investment to meet the target, but both Sarnia and Montreal East refineries will require significant investment.

Plant Acquisitions and Disposals In 1998, Shell purchased its previously leased Calgary distribution terminal. This terminal services both Shell and the majority of other industry downstream operations in the Calgary area. Shell also disposed of its Matagami terminal in Quebec. The Balzac refinery, which has been mothballed since 1993, was sold for dismantling and export.

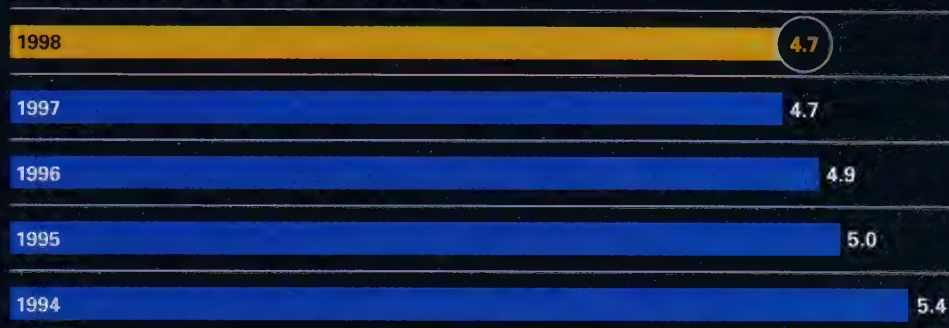
RETAIL

Retail operations maintained margins while increasing sales volumes compared to 1997. Shell's retail gasoline volumes grew by more than four per cent, 1.8 per cent more than total sales for the industry as a whole. This growth resulted in a market share of more than 19 per cent (large urban markets) when combined with the Company's private-brand network. Earnings from non-petroleum products and services continued their growth and contributed a larger share of the total retail margin. These earnings and the continuing low cost of operation provide an important contribution to the Company's profitability.

Retail Design Success The new retail image and site offerings introduced in 1996 continued their successful rollout and have now been introduced widely in five major Canadian cities. Total conversions by the end of the year numbered 309. Initial volume increases at each site met or exceeded planned sales targets and were ahead of schedule. The introduction of easyPay™ transponder technology at 18 Calgary and area locations further enhanced the conversion, which incorporates new convenience store designs and services along with card-accepting pumps. Shell's easyPay™ involves radio frequency technology incorporating individual customers' credit card and AIRMILES® Travel Miles information, which allows easy, fast fuelling service.

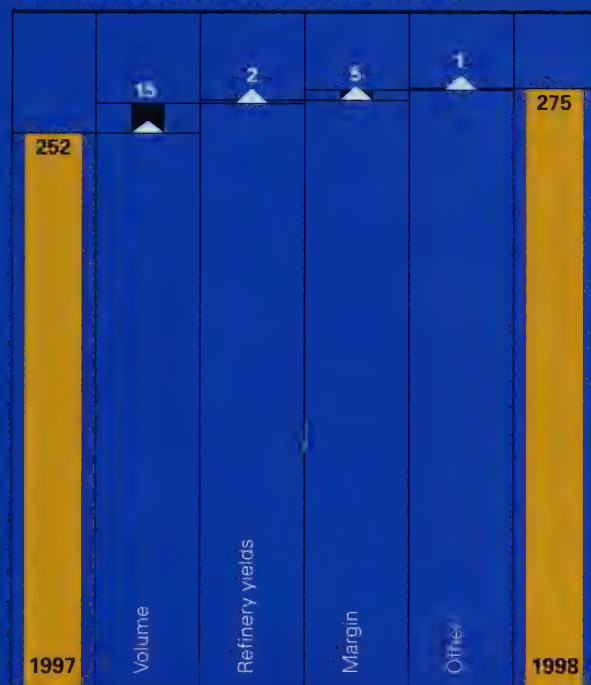
® Trademark of AIRMILES International Holdings N.V. Shell Canada Products Limited is an authorized user.

OIL PRODUCTS UNIT COSTS (€ per litre)



Higher volumes and a continuing focus on costs maintained unit costs at the 1997 levels.

OIL PRODUCTS EARNINGS IN 1998 (\$ millions)



An increase in sales volumes was the major contributor to increased earnings.

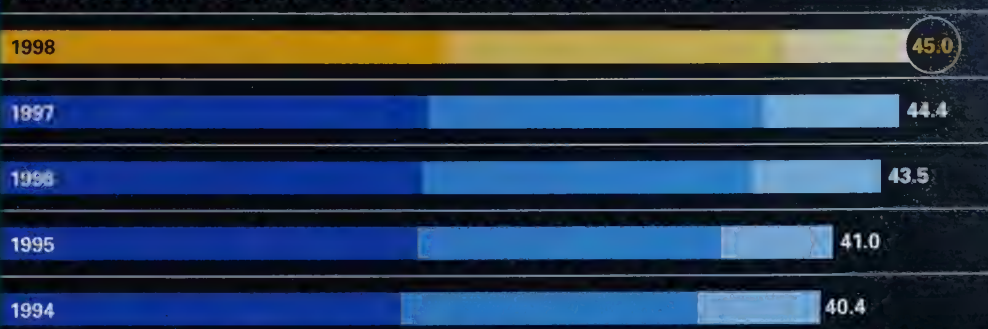
Oil Products Highlights

(\$ millions except as noted)	1998	1997	1996
Revenues	3 885	4 621	4 470
Earnings	275	252	75
Capital employed	1 766	1 740	1 689
Capital expenditures	171	150	160
Return on average capital employed (%)	15.7	14.7	4.3

Product demand grew quickly at the beginning of the year, but slowed as economic growth declined.

- Gasolines
- Middle Distillates
- Other Products

PETROLEUM PRODUCT SALES (thousands of cubic metres per day)



Retail Network Rationalization Rationalization of the retail network continued. There were 1,935 Shell-branded service stations at year-end compared to 2,053 at the end of 1997. Average throughput per Company- and dealer-owned service station increased by 13.9 per cent over the previous year.

Non-Petroleum Products and Services Revenue streams, particularly from the convenience store and car wash businesses, continued to demonstrate year-over-year improvement. The delivery of new programs, more aggressive promotion, and the continuing upgrading of the network drives this growth. The potential for further growth over the next five years remains a prime focus.

Private-Brand Rationalization The integration and rationalization of the wholly owned private-brand network into Shell's operations continued as planned. In 1998, 58 private-brand service stations were either converted or closed. The stations converted to the Shell brand have shown an 11 per cent increase in throughput. Early in 1999, the private-brand network operations will be fully incorporated into Shell's branded retail operations, further improving cost and efficiency.

COMMERCIAL

Shell's commercial business includes agency, aviation, commercial branded sales, lubricants and wholesale sales, as well as customer service for both retail and commercial marketing. The financial performance of the commercial business continued to improve as a result of asset rationalization, selective network upgrades, cost reduction and cost-effective service to customers. The increase in demand for distillate fuels depends largely on economic growth. Overall diesel fuel demand grew 0.5 per cent and the demand for aviation fuel grew by three per cent in 1998 compared to 1997. Slower economic growth in the second half of 1998 placed increasing pressure on volumes and margins, a trend that is likely to continue into 1999.

The continued improvement in service station throughput reflects the success of the new retail design.

- Company- and dealer-owned service stations
- Service station throughput (millions of litres)

SERVICE STATION PERFORMANCE *(throughput per station)*



Consolidation of commercial network assets continued in 1998, reducing the total number of cardlock operations and agency bulk plants from 256 at the end of 1997 to 211 at the end of 1998. Further reductions are anticipated over the next two years and the resulting asset write-downs and remediation expense will have a modest effect on earnings.

The network rationalization is expected to reduce the operational duplication of sites, minimize inventory and increase throughputs to meet more efficiently the needs of those customers whom Shell can serve profitably. At the same time, Shell reinvests selectively in the commercial networks for market growth and to meet more stringent environmental standards. The Company is also enhancing its marketing programs (including the use of the AIRMILES[®] loyalty program) and increasing its emphasis on non-petroleum products and services.

Aviation The growth in Shell's aviation fuel sales was a combination of growth in overall industry demand and the Company's increased market share. Shell completed sales of its Aerocentre facilities in Ottawa and Victoria in 1998 and initiated marketing programs for Toronto Pearson and Vancouver facilities. The Company intends to retain a strong Shell aviation fuelling presence at all of these facilities, but will no longer own and operate the buildings and related services.

Lubricants There was continued pressure on margins for the integrated base oil and blended finished lubricants businesses due to a global and domestic oversupply of most grades and qualities of lubricants base stocks. Shell's response is to refocus on key market segments and product lines by reducing blending, packaging and distribution costs, and by increasing the utilization of the Brockville and Calgary plants.

EARNINGS PER LITRE (¢ per litre)



The increase in earnings per litre reflected higher margins and volumes and improved refinery yields.

LOOKING AHEAD

Oil Products objective is to sustain a 15 per cent return on average capital employed. The downstream business expects to continue to pursue this through ongoing operational improvements in the base business, aggressive management of core activities within its control and selective pursuit of growth opportunities.

Manufacturing investment will focus on environmental, reliability and profitability projects. Marketing spending will concentrate on upgrading and continued conversion of the private-brand network to the Shell brand to increase profitability.

Strategy Oil Products will emphasize three key areas for profitability and growth:

- *Manufacturing: feedstock management, best-in-class reliability and efficient management of operating expense;*
- *Retail: market share penetration, increased non-petroleum products and services revenue, increased network efficiency, and private-brand integration;*
- *Commercial: maintenance and improvement of the base business through network rationalization and selected growth.*

Capital Investment Oil Products plans capital expenditures of \$155 million in 1999. Shell will spend \$92 million on investments for growth and profitability. This spending will include \$24 million on refinery projects directed mainly at improving yield and reducing product costs. Of the \$92 million, Oil Products will spend \$68 million on marketing network upgrades. The remaining \$63 million will support the maintenance of asset integrity, and the environmental and safety programs.



Shell Canada customer Roberta Trupish enjoys a cup of Java Café coffee in a Select store at Kenaston and Scurfield in Winnipeg, Manitoba. In 1998, Shell began testing a number of new, in-store design concepts and product lines such as Java Café and Oven Works. The successful, national launch of Java Café in 1998 was a major product growth initiative for the retail business.



Shell's Corporate segment had expenses of \$12 million in 1998 compared to earnings of \$7 million for 1997. The 1997 earnings included interest income on a tax settlement, while the decline in the Canadian dollar during 1998 led to incremental foreign exchange losses on the Company's U.S. dollar debt. The 1998 results were improved by a reduction in tax expense through the acquisition of business losses from a related company, and the gain on the sale of the Shell Centre office building in Calgary.

FINANCING ACTIVITIES

The Company entered the year with relatively low debt on the balance sheet and more than \$600 million of cash and short-term securities. Capital expenditures in 1998 were higher than in previous years, primarily due to investment in the Sable project. Cash flow from existing operations and existing cash holdings fully financed this additional investment, as well as movements in working capital and dividend payments. Consequently, the cash and short-term investment had been reduced to \$325 million by year-end. Shell maintained a high rating with all the major credit rating agencies, a reflection of the Company's financial strength through the high grade of its debt. Long-term debt as a percentage of capital employed was 18.9 per cent at year-end. This percentage includes \$383 million of long-term debt maturing in 1999.

As the Company progresses its Oil Sands project, it will be necessary to fund the project with higher levels of debt than Shell owes now. Within a conservative and prudent outlook, internal cash flows and additional debt will finance the necessary capital. This financing is not expected to affect Shell's strong credit rating.

1998 CASH MOVEMENT (\$ millions)

	845	(796)				
Opening cash						619
Cash from operations						
Capital expenditures						
Asset sale proceeds			253			
Working capital and other				(363)		
Dividends and share buy-back					(233)	
Closing cash						325

Cash from operations and existing cash holdings financed Shell's increased investment, working capital movement and dividends.

At the end of 1998, the Company had a commercial paper facility of \$500 million, backed by \$100 million in committed lines of credit available to fund any temporary cash requirements. Shell has not used this facility since the first quarter of 1994 and no commercial paper was outstanding at the end of 1998. In preparation for future market financing, the commercial paper facility was increased to \$750 million in early 1999.

Shell announced in July 1998 its intention to make a normal course issuer bid to repurchase for cancellation up to one per cent of its 290 million Class "A" Common Shares. The bid is to counter dilution from issuance of common shares under Shell's employee stock option program. The bid will end on or before August 16, 1999. At the end of 1998, 1,000,800 shares had been repurchased at market prices for a total cost of \$24 million.

Dividends paid for the year amounted to \$0.72 per common share. This compares to dividends in 1997 of \$0.66 per share. Return on average common shareholders' equity was 13.1 per cent compared to 14.8 per cent in 1997.

RISK MANAGEMENT

The major risks to Shell Canada are in operations, marketing, exploration and development, finance and health, safety and environment.

Operations Operating risk is the uncertainty to which future earnings are exposed as a result of operating upsets and failure to meet production commitments. Shell's large and diversified mix of production facilities reduces operating risk. To improve asset reliability, the Company optimizes engineering design during facility planning and construction. Once facilities are in operation, Shell performs extensive preventive maintenance and continuously reviews asset integrity. The Company also retains highly trained and experienced operating staff.

Marketing Risk arises from disruptions in supply and market access, failure of customers to pay (credit risk) and commodity price fluctuations. Shell maintains a diversified portfolio of supply sources and transportation arrangements to minimize supply disruptions and ensure access to markets. To reduce credit risk, Shell targets credit-worthy customers. The Oil Products and Resources businesses each manage commodity price fluctuations using appropriate risk management instruments within limits set by the Board of Directors.

Resources uses risk management instruments to lock in natural gas prices.

Oil Products also uses energy futures and over-the-counter swaps to satisfy customer requests for set prices while maintaining the advantages of floating-rate pricing. Major refining or supply decisions include the use of risk management instruments to secure economic benefits.

Exploration and Development The major risk in exploration is whether or not the basins explored contain commercially viable volumes and the structures drilled will be discoveries. Shell is creating a broad exploration portfolio to provide a balance between high probability of success with small pools and low probability of success with large pools. Shell reduces risk using current tools such as three-dimensional seismic surveys and applies risk analysis techniques in investment evaluation.

The Company's diverse portfolio of exploration opportunities and existing assets further reduces risk.

Finance Financial risk results from fluctuations in currency values and interest rates and from serious losses due to accidental causes.

Shell uses risk management instruments to manage its exposure to fluctuations in currency, interest rates and commodity prices.

Currency exposure arises from many of Shell's commodity transactions being priced in non-Canadian currency, mainly U.S. dollars. To manage the long-term exposure to currency fluctuations, the Company maintains its long-term debt in U.S. dollars. In the short term and to the extent possible, Shell nets foreign currency cash flows across operations each month. Foreign exchange exposures for large capital expenditures are managed independently from daily operational currency flows. The Company used hedges in 1998 to reduce currency exposure associated with capital costs for the Sable project.

Interest rate risk arises from fluctuations in interest rates and their impact on interest expense. Debt levels and the extent to which debt interest is based on floating rates influence exposure to interest rates. At the end of 1998, approximately 82 per cent of outstanding debentures were based on floating rates. Diversification between U.S. and Canadian financial markets further reduced exposure to interest rates.

The purchase of insurance provides protection against serious losses from accidental causes. The program focuses on protecting the Company with an acceptable level of risk at minimum cost.

Health, Safety and Environment Health, safety and environmental (HSE) risks are also a part of Shell's business. Reducing the number of Company-owned sites for the production, marketing and distribution of hydrocarbons has reduced exposure to environmental risk.

Expenditures for site remediation are an important factor in this rationalization program. Shell's policy provides for an HSE assessment of all Resources assets bought or sold. Remediation is undertaken at selected sites where there are known liabilities. The policy for Oil Products properties is to return all Company-owned and -operated sites to environmentally acceptable standards, as regulated by government, before disposal. However, the most effective way to manage HSE risks is to minimize them or to prevent them from arising in the first place. To this end, Shell maintains standards, procedures and training programs, completes audits and monitors performance.

YEAR 2000

Vulnerability to Year 2000 Problems There are three areas of risk with respect to the Year 2000 issue: computer systems, field assets and commercial relationships. Computer systems include the business, technical, network and desktop systems used throughout the Company. Field assets comprise those systems involved in the production of oil and gas, gas processing plants, manufacturing facilities and the distribution of all hydrocarbons. Commercial relationships involve the state of readiness of suppliers, customers and other third parties.

Critical Systems Evaluation and Planning The Company has taken a comprehensive inventory of each risk area, assessing each system for the potential impact of the century rollover using standard risk management techniques. As the majority of systems are vendor-supplied, the Company first checked vendors' compliance status, then followed consistent inspection and detailed testing procedures to ensure compliance. A program to replace or upgrade non-compliant critical systems followed the testing process. As a further precaution, Shell is developing contingency plans to meet unforeseen problems with critical systems or assets after the century rollover. These contingency plans include modifications to Shell's existing business continuity, emergency response and crisis management plans.

Status and Timing By the end of 1998, two of the three risk areas, computer systems and field assets, were on course for a successful Year 2000 implementation or have been upgraded to compliant versions. The majority of computer systems are compliant and those that are not will be upgraded in 1999. The Company does not consider any of these remaining systems critical to its continuing operations.

The field assets have been tested and are now considered Year 2000 ready. Testing revealed no major problems, with only limited upgrade or modification necessary.

The third area of risk, commercial relationships, is less advanced. Shell has contacted major suppliers, customers and third parties regarding their progress towards Year 2000 compliance. About one-third are compliant and one-third have advised the Company of programs that are to make them compliant by the year 2000. The remainder has yet to respond to requests for information. Shell will continue to monitor trading partners' progress throughout 1999.

Costs and Accounting Treatment The costs of the Year 2000 implementation incurred to the end of 1998 were \$6 million. Shell expects the total costs to be less than \$10 million. All of this expenditure has been or will be charged to operating expense in the year in which it is incurred. This level of expenditure is not considered material to the financial well-being of the Company.

OUTLOOK AND SENSITIVITIES

Shell's primary objective is to achieve a sustained profitability of 15 per cent return on average capital employed. Its secondary objective is to seek profitable investment opportunities to grow the business. The Company's base business plan, excluding the capital investment in Oil Sands from 1999 to 2003, achieves the primary objective within the planning period. However, further initiatives will be necessary to ensure long-term sustainability. Shell's investment plans, particularly the shift to oil sands and offshore natural gas, will set the Company on a growth path well into the next century.

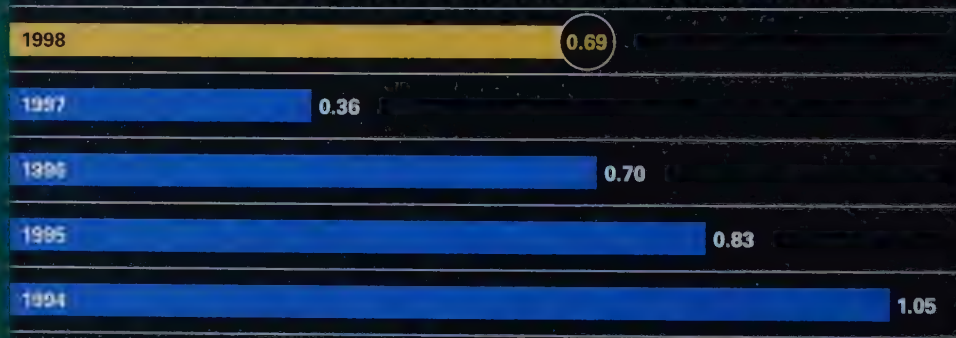
Operating Earnings Sensitivities (after tax)		Increase / (Decrease)
Crude Oil (<i>West Texas Intermediate</i>)	U.S. \$1 increase per barrel	\$ 4 million
Natural Gas (<i>Alberta Indices</i>)	Cdn. 10-cent increase per thousand cubic feet	\$ 8 million
Condensate (<i>West Texas Intermediate</i>)	U.S. \$1 increase per barrel	\$ 5 million
Sulphur	\$Cdn. \$1 increase per tonne	\$ 1 million
Light Oil Sales Margin	\$Cdn. 1/4-cent increase per litre	\$ 20 million
Exchange Rate (<i>including debt</i>)	1-cent increase in \$Cdn. vs. \$U.S.	\$ 2 million
Exchange Rate (<i>excluding debt</i>)	1-cent increase in \$Cdn. vs. \$U.S.	(\$ 5 million)

HEALTH, SAFETY AND ENVIRONMENT

Safety Shell's safety performance in 1998 remained among the best of its petroleum industry peers in terms of lost-time and recordable injury rates. Sadly, there was one employee fatality and 14 lost-time injuries to contractors. The lost-time injury frequency for employees was 0.03 injuries per 200,000 work-hours, a Company record. The total recordable frequency for employees was 0.40, also a best ever performance. Oil Products and Resources had employee lost-time injury frequencies of 0.05 and zero respectively. The lost-time injury frequency for contractors was 0.69 compared to 0.36 in 1997. The overall Canadian industry average for 1996 was 3.1.

The lost-time injury frequency rate for contractors was higher than the 1997 rate but below the 1996 Canadian industry average.

LOST-TIME INJURY RATE - CONTRACTORS (frequency per 200,000 work-hours)



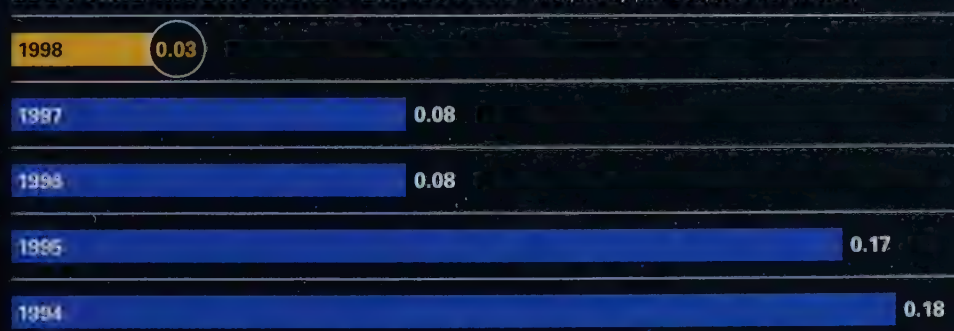
A number of safety milestones were achieved during the year. Resources had no lost-time injuries for employees for the second consecutive year. In 1998, Scotford refinery and Shellburn terminal achieved major safety milestones of three and six years respectively without employee or contractor lost-time injuries. Montreal East refinery received Canadian National Railway's Safe Handling Award.

President's Safety Award The winner of the 1998 President's Safety Award was Resources Technology and Services and, in particular, the Geophysical Services and the Drilling, Completions and Construction groups. This award recognizes the department or operating location with the most outstanding safety performance. The Geophysical Services and Drilling, Completions and Construction groups demonstrated sustained excellence in safety and have played a major role in raising the standard of safety performance in the drilling and seismic industry.

Greenhouse Gases Shell shares the concern being expressed globally over the potential impact of climate change and strongly supports precautionary, prudent action at this time. The Company has set a target to be at 94 per cent of 1990 greenhouse gas levels for the existing base business by the year 2008. At the end of 1997, total greenhouse gas emissions were at 1990 levels. The Company's energy efficiency improvement program reduced carbon dioxide emissions by an estimated 800,000 tonnes per annum, equivalent to 10 per cent of 1990 levels. However, overall growth of the business and increased energy demand to produce oil and gas from declining fields offset these gains. Shell participates in and totally supports the Voluntary Challenge and Registry Program as one means of addressing this issue.

Accelerated Reduction/Elimination of Toxins (ARET) Shell continues to take part in this voluntary program aimed at reducing persistent, bioaccumulative, toxic substances by 90 per cent, and "other" identified toxic substances by 50 per cent of 1988 levels by the year 2000. Shell's identified emissions fall within the category of "other" identified toxins. The Company is on track to reduce its identified emissions by 65 per cent of 1988 levels by the year 2000.

LOST-TIME INJURY RATE – EMPLOYEES (frequency per 200,000 work-hours)



Shell's lost-time injury frequency fell to 0.03 per 200,000 work-hours in 1998.

Health, Safety and Sustainable Development Management System Implementation of the Health, Safety and Sustainable Development Management System in the field locations continued in 1998. The objectives and targets were also updated. Shell tracks its performance and publishes the results in its annual “Progress Toward Sustainable Development” report. Implementing the system should place Shell among the leaders in recognized health, safety and environmental management systems.

Looking Ahead Shell presents firm health, safety and sustainable development objectives and accompanying targets in the annual publication “Progress Toward Sustainable Development.” These objectives and targets cover the following areas:

- *health, safety and sustainable development management;*
- *regulatory compliance;*
- *emergency preparedness;*
- *product stewardship;*
- *air and water emissions;*
- *control of soil and groundwater contamination;*
- *waste management;*
- *energy management;*
- *land use and wildlife;*
- *employee health and safety;*
- *contractor safety;*
- *health and safety of customers and public;*
- *physical integrity of assets.*

HUMAN RESOURCES DEVELOPMENT

It is essential to the Company’s current and future success that Shell attracts and retains committed, motivated and highly skilled employees. Shell also recognizes the value of providing a work environment that supports diversity and treats people fairly on the basis of merit. The Company supports these goals by developing and implementing policies to train, develop and reward employees appropriately, recognizing each person’s unique skills and abilities. Management also supports open and honest communication with employees whenever possible, and encourages the development of accountability systems that promote responsibility and decision making throughout the organization. The Company shares its success with the employees through a results pay system, which takes into account Shell’s achieved earnings and its overall profitability compared to the other major integrated oil companies.

TECHNOLOGY AND SHARED SERVICES

Technology and Shared Services supports the Resources, Oil Sands and Oil Products sectors in achieving their corporate goals of operational excellence with profitable growth.

Shared Services provides expertise to Shell in the areas of air transportation, security, facilities management, and supply chain management. Support services provided by Shared Services enable the sectors to focus their resources on their core responsibilities.

Technology specialists provide the technical and engineering support necessary to secure the best performance from the Company's existing assets and new business opportunities. This support enables the Company to operate its refineries and gas plants safely and with maximum efficiency. For example, the Oil Sands project benefits from this type of new-business support. In the Calgary Research Centre laboratory, scientists are helping to define the mine plan, develop innovative extraction and solvent recovery processes and define environmental characteristics of tailings, which is the residue remaining after extracting oil from the sand.

Access to the worldwide research and technical support capabilities of the Royal Dutch/Shell Group of Companies augments Shell Canada's capabilities.

COMMUNITY INVOLVEMENT

In 1998, Shell donated a total of \$4.5 million, including gifts-in-kind, to non-profit organizations across Canada. Contributions were channelled mainly through the Shell Community Service Fund, the Shell Environmental Fund, United Way campaigns, grants to education and agencies involved in disaster relief.

Ice storms and forest fires swept through several Canadian communities in 1998. Shell helped the victims of these natural disasters with much needed funding, employee labour, generators, aviation fuel, gasoline and other gifts-in-kind. Shell has contributed more than \$256,000 to disaster relief since 1995.

To further Canadian education, Shell donated \$1.6 million to educational institutions and programs across the country in 1998, including one major new initiative. Following the announcement last February of a student scholarship program in partnership with the National Aboriginal Achievement Foundation (NAAF), 33 Aboriginal students received Shell scholarships in 1998. The Shell Canada Aboriginal Scholarship Program will award scholarships in business, science and engineering totalling \$300,000 over three years through NAAF.

As part of its environmental support, Shell partnered with Tree Canada Foundation in an initiative called Ice-Storm 98 – Operation Re-Leaf. Shell's \$75,000 contribution helped to maintain and replace trees that were destroyed during the ice storm in Eastern Canada. The Shell Environmental Fund continues to support Canadians in their grass roots environmental projects and has donated more than \$5.6 million since 1990.

Finally, the Company matched contributions raised by Shell employees and retirees for a total donation of \$1.3 million to the 1998 United Way campaigns. This amount included a donation of \$1 million to the Calgary and Area campaign, a record for Shell Canada. At the same time, 144 Shell people became "Leaders of the Way" by contributing \$1,000 or more, and 565 employees gave a total of 2,700 volunteer hours to some of their local United Way agencies.



Aboriginal student Lorraine LeCamp takes a break from the books in the Royal Ontario Museum, Toronto. Lorraine is one of the first recipients of a Shell Canada Aboriginal Scholarship awarded through the National Aboriginal Achievement Foundation. Launched in 1998, the program will award scholarships in the areas of business, science and engineering to a total of \$300,000 over three years.

Management's Report

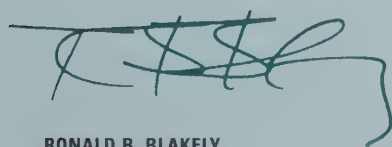
To the Shareholders of Shell Canada Limited:

The management of Shell Canada Limited is responsible for the preparation of all information included in this Annual Report. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles and necessarily include amounts based on management's informed judgments and estimates. Financial information included elsewhere in this Annual Report is consistent with the consolidated financial statements.

To assist management in fulfilling its responsibilities, a system of internal accounting controls has been established to provide reasonable assurance that the consolidated financial statements are accurate and reliable and that assets are safeguarded. Management believes that this system of internal control has operated effectively for the year ended December 31, 1998.

PricewaterhouseCoopers LLP, Chartered Accountants, appointed by the shareholders, have audited the financial statements and conducted a review of internal accounting policies and procedures to the extent required by generally accepted auditing standards and performed such tests as they deemed necessary to enable them to express an opinion on the consolidated financial statements.

The Board of Directors, through its Audit Committee, is responsible for ensuring that management fulfills its financial reporting responsibilities. The Audit Committee is composed of independent directors who are not employees of the Corporation. The committee reviews the financial content of the Annual Report and meets regularly with management, internal audit and PricewaterhouseCoopers LLP to discuss internal controls, accounting, auditing and financial matters. The committee recommends the appointment of the external auditors. The committee reports its findings to the Board of Directors for its consideration in approving the consolidated financial statements for issuance to the shareholders.



RONALD B. BLAKELY
Chief Financial Officer

January 28, 1999



IAN S. TITTLE
Controller

Auditors' Report

To the Shareholders of Shell Canada Limited:

We have audited the consolidated balance sheet of Shell Canada Limited as at December 31, 1998, 1997 and 1996 and the consolidated statements of earnings and retained earnings, and cash flows for each of the years in the three-year period ended December 31, 1998. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1998, 1997 and 1996 and the results of its operations and the changes in its financial position for each of the years in the three-year period ended December 31, 1998, in accordance with generally accepted accounting principles.

The logo for PricewaterhouseCoopers LLP is written in a stylized, cursive script. The letters are dark blue or black, and the overall style is elegant and professional.

CHARTERED ACCOUNTANTS

Calgary, Alberta

January 28, 1999

Consolidated Statement of Earnings and Retained Earnings

Year ended December 31 (\$ millions)	1998	1997	1996	1995	1994
Revenues					
Sales and other operating revenues	4 449	5 306	5 195	4 536	4 342
Dividends, interest and other income	57	150	47	49	26
Total revenues	4 506	5 456	5 242	4 585	4 368
Expenses					
Purchased crude oil, petroleum products and other merchandise	2 372	3 066	3 066	2 521	2 358
Operating, selling and general	1 039	1 071	1 094	1 049	1 093
Exploration	57	62	84	65	40
Depreciation, depletion, amortization and retirements	265	308	393	382	387
Interest on long-term debt	70	65	66	81	103
Foreign exchange on long-term debt	52	20	14	15	15
Total expenses	3 855	4 592	4 717	4 113	3 996
Earnings					
Earnings before income taxes	651	864	525	472	372
Income taxes (Note 4)	219	341	199	170	149
Earnings from continuing operations	432	523	326	302	223
Earnings from discontinued operations (Note 13)	—	—	269	221	97
Earnings	432	523	595	523	320
Per Class "A" Common Share (dollars)					
Earnings from continuing operations	1.49	1.69	0.96	0.90	0.66
Earnings	1.49	1.69	1.77	1.55	0.95
Retained Earnings					
Balance at beginning of year	2 730	3 021	2 628	2 273	2 065
Earnings	432	523	595	523	320
	3 162	3 544	3 223	2 796	2 385
Common shares buy-back	22	608	—	—	—
Dividends	209	206	202	168	112
Balance at end of year	2 931	2 730	3 021	2 628	2 273

Consolidated Statement of Cash Flows

Year ended December 31 (\$ millions)	1998	1997	1996	1995	1994
Cash From Operating Activities					
Earnings from continuing operations	432	523	326	302	223
Exploration	57	62	84	65	40
Non-cash items					
Depreciation, depletion, amortization and retirements	265	308	393	382	387
Deferred income taxes	54	37	(65)	(33)	13
Other items	37	10	12	5	7
Cash flow from continuing operations	845	940	750	721	670
Movement in working capital and other related to operating activities	(301)	43	(52)	(197)	262
Cash from operating activities from continuing operations	544	983	698	524	932
Cash flow from discontinued operations	—	—	61	140	114
Movement in working capital from discontinued operations	—	—	25	44	(52)
	544	983	784	708	994
Cash Invested					
Capital and exploration expenditures	(796)	(520)	(442)	(384)	(268)
Proceeds on disposal of properties, plant and equipment	253	169	72	67	58
Investments, long-term receivables and other	(85)	(15)	35	15	7
Movement in working capital related to investing activities	16	—	—	—	—
Discontinued operations	—	—	520	174	(1)
	(612)	(366)	185	(128)	(204)
Cash From Financing Activities					
Common shares buy-back (Note 3)	(24)	(976)	—	—	—
Proceeds from exercise of common share stock options	1	8	10	2	3
Dividends paid	(209)	(206)	(202)	(168)	(112)
Long-term debt repayments and other	6	(14)	(31)	(226)	(318)
	(226)	(1 188)	(223)	(392)	(427)
(Decrease) increase in cash	(294)	(571)	746	188	363
Cash at beginning of year	619	1 190	444	256	(107)
Cash at end of year¹	325	619	1 190	444	256

¹ Cash comprises cash and highly liquid short-term investments less short-term borrowings.

Consolidated Balance Sheet

At December 31 (\$ millions)	1998	1997	1996	1995	1994
Assets					
Current assets					
Cash and short-term investments	325	619	1 190	444	256
Accounts receivable	627	717	767	764	746
Inventories					
Crude oil, products and merchandise	545	540	396	546	582
Materials and supplies	49	49	47	49	44
Prepaid expenses	122	114	99	86	46
	1 668	2 039	2 499	1 889	1 674
Investments, long-term receivables and other	198	214	193	227	239
Properties, plant and equipment (Note 2)	3 946	3 713	3 718	4 035	4 200
Total assets	5 812	5 966	6 410	6 151	6 113
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities	656	705	717	734	732
Income and other taxes payable	10	304	120	152	251
Current portion of site restoration and other long-term obligations	21	28	—	—	—
Current portion of long-term debt	367	1	6	10	228
	1 054	1 038	843	896	1 211
Site restoration and other long-term obligations (Note 7)	188	189	238	251	248
Long-term debt (Note 6)	425	740	716	704	696
Deferred income taxes	745	799	762	852	867
Total liabilities	2 412	2 766	2 559	2 703	3 022
Commitments and contingencies (Note 11)					
Shareholders' Investment					
Capital Stock (Note 3)					
100 4% Preference Shares	1	1	1	1	1
289 178 840 Class "A" Common Shares (1997 – 290 127 940; 1996 – 337 531 497)	468	469	538	528	526
	469	470	539	529	527
Contributed surplus	—	—	291	291	291
Retained earnings	2 931	2 730	3 021	2 628	2 273
Total shareholders' investment	3 400	3 200	3 851	3 448	3 091
Total liabilities and shareholders' investment	5 812	5 966	6 410	6 151	6 113

The consolidated financial statements have been approved by the Board of Directors.



CHARLES W. WILSON

Director



PETER J.G. BENTLEY

Director

Notes to Consolidated Financial Statements

Shell Canada's consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada. The Corporation's major accounting policies are summarized as follows:

1. ACCOUNTING POLICIES

Principles of Consolidation The consolidated financial statements include the accounts of Shell Canada Limited and its subsidiary companies. The financial statements reflect the Corporation's proportionate interests in oil and gas joint ventures.

Inventories Inventories of crude oil, products and merchandise are stated at the lower of cost, applied on the Last-In, First-Out (LIFO) basis, and net realizable value. Materials and supplies are stated at the lower of cost and estimated useful value.

Investments Investments in companies over which Shell Canada exercises significant influence are accounted for using the equity method. Accordingly, the book value of the investment in such companies equals the original cost of the investment, plus Shell Canada's share of earnings since the investment date, less dividends received. Other long-term investments are recorded at cost. Short-term investments are carried at the lower of cost or market value and are highly liquid securities with a maturity of three months or less when purchased.

Exploration and Development Costs The Corporation follows the successful efforts method of accounting for exploration and development activities. Under this method, acquisition costs of resource properties are capitalized. Exploratory drilling costs are initially capitalized and costs relating to wells subsequently determined to be unsuccessful are charged to earnings. Other exploration costs are charged to earnings. All development costs are capitalized.

Depreciation, Depletion and Amortization Depreciation and depletion on resource assets are provided on the unit-of-production basis. Land and lease costs relating to producing properties and costs of gas plants are depleted and depreciated over remaining proved reserves. Resource development costs are depleted and depreciated over remaining proved developed reserves. A valuation allowance for unproved properties is provided through amortization of costs; the amortization rate is determined in accordance with experience. Costs relating to non-resource assets are depreciated on the straight-line basis over each asset's estimated useful life.

Site Restoration Estimated site restoration costs are provided for on either the unit-of-production or the straight-line basis over the useful life of the related assets. Costs are based on engineering estimates of the anticipated method and extent of site restoration, in accordance with current legislation, industry practices and costs. Provision is being made for site restoration costs that the Corporation expects to incur within the foreseeable future and that can be reasonably estimated.

Interest Interest costs are expensed as incurred.

Royalties and Mineral Taxes Alberta royalties on crude oil obtained from Crown leases are required to be delivered in kind. All royalty entitlements and mineral taxes are reflected as reductions in sales and other operating revenues.

Other Postemployment Benefits In addition to its pension plan, the Corporation provides retiree benefits including life insurance and supplementary health and dental coverage. The actuarially determined cost of these benefits is accrued over the estimated average remaining service life of employees.

Foreign Currency Translation Long-term monetary liabilities are translated to Canadian dollars at rates of exchange in effect at the end of the period. Unrealized exchange gains and losses arising on translation are deferred and amortized over the remaining terms of these liabilities.

Financial Instruments Financial instruments including cash, marketable securities and short-term debt are recorded at historical cost and, unless otherwise indicated, their market values approximate the recorded amounts.

Foreign Exchange Forward Contracts The Corporation enters into foreign exchange forward contracts to hedge certain foreign purchases and sales. Those foreign transactions are recorded in the financial statements in Canadian dollars at the rate specified in the forward contract. Exchange gains or losses on the contracts offset the gains or losses on the initial transaction.

Interest Rate Swaps Interest rate swaps are used to manage interest rate exposure. Differentials under interest rate swap arrangements are recognized by adjustments to interest expense.

Energy Futures The Corporation uses energy futures to reduce exposure to price fluctuations in some contractual energy purchases and sales. Any gain or loss on these transactions is applied to the cost of the products purchased and sold in accordance with the intent to hedge risk.

Reclassification Certain information provided for prior years has been reclassified to conform to the current presentation.

2. SEGMENTED INFORMATION

The operating segments are those adopted by senior management of the Corporation to determine resource allocations and assess performance. In all material respects, the segmented information is applied consistently in accordance with the Corporation's significant accounting policies. The Corporation's revenues are attributed principally to Canada where all of its major properties, plants and equipment are located.

Segmented financial results and properties, plant and equipment data are reported as if the segments were separate entities. Inter-segment sales, which are accounted for at estimated market-related values, are included in revenues of the segment making the transfer. On consolidation, such inter-segment sales and any associated estimated profits in inventory are eliminated from total revenues and profit.

2. SEGMENTED INFORMATION *(continued)*

Earnings (\$ millions)	Resources		
	1998	1997	1996
Natural gas	401	423	377
Crude oil and bitumen	41	64	59
Natural gas liquids	289	439	437
Royalties	(144)	(209)	(153)
Gasolines	—	—	—
Middle distillates	—	—	—
Other products	25	31	26
Other revenues	34	56	65
Inter-segment sales	95	165	242
Total revenues	741	969	1 053
Purchased crude oil, petroleum products and other merchandise	—	—	—
Operating, selling and general	250	283	302
Exploration	57	62	84
Depreciation, depletion, amortization and retirements	154	169	189
Interest on long-term debt	—	—	—
Foreign exchange on long-term debt	—	—	—
Total expenses	461	514	575
Earnings (loss) before income taxes	280	455	478
Income taxes	111	191	186
Earnings (loss) from continuing operations	169	264	292
Earnings from discontinued operations	—	—	—
Earnings (loss)	169	264	292

The Corporation has the following segments:

Resources includes exploration, production and marketing activities for crude oil, bitumen, natural gas, natural gas liquids and sulphur.

Oil Products includes the manufacturing, distributing and marketing of the Corporation's refined petroleum products.

Corporate and Other includes controllership, financing, administration and general corporate facility management. It also includes Oil Sands, which only has capital activities at this time.

Oil Products			Corporate and Other			Total		
1998	1997	1996	1998	1997	1996	1998	1997	1996
-	-	-	-	-	-	401	423	377
-	-	-	-	-	-	41	64	59
-	-	-	-	-	-	289	439	437
-	-	-	-	-	-	(144)	(209)	(153)
1 799	2 084	1 986	-	-	-	1 799	2 084	1 986
1 299	1 581	1 606	-	-	-	1 299	1 581	1 606
548	708	674	-	-	-	573	739	700
184	153	133	30	126	32	248	335	230
55	95	71	-	-	-	-	-	-
3 885	4 621	4 470	30	126	32	4 506	5 456	5 242
2 533	3 321	3 378	(15)	-	(3)	2 372	3 066	3 066
768	767	774	25	26	22	1 039	1 071	1 094
-	-	-	-	-	-	57	62	84
156	139	205 ¹	(45)	-	(1)	265	308	393
-	-	-	70	65	66	70	65	66
-	-	-	52	20	14	52	20	14
3 457	4 227	4 357	87	111	98	3 855	4 592	4 717
428	394	113	(57)	15	(66)	651	864	525
153	142	38	(45)	8	(25)	219	341	199
275	252	75	(12)	7	(41)	432	523	326
-	-	-	-	-	-	-	-	269
275	252	75	(12)	7	(41)	432	523	595

¹ In 1996, an \$83-million charge (\$50 million after tax) was made for the write-down of assets and site restoration for integration of the private-brand business.

2. SEGMENTED INFORMATION *(continued)*

Cash Flow (\$ millions)	1998	Resources	
		1997	1996
Cash flow from continuing operations	386	513	579
Movement in working capital and other related to operating activities	8	—	(32)
Cash from operating activities from continuing operations	394	513	547
Cash from operating activities from discontinued operations	—	—	—
Cash from operating activities	394	513	547
Capital and exploration expenditures	(509)	(352)	(278)
Cash flow from investing activities from discontinued operations	—	—	—
Other cash invested	167	143	65
Cash from financing activities	4	1	19
Increase (decrease) in cash	56	305	353

Capital Employed (\$ millions)

Properties, plant and equipment at cost	4 105	3 806	3 766
Accumulated depreciation, depletion and amortization	1 846	1 698	1 606
Net properties, plant and equipment for continuing operations	2 259	2 108	2 160
Other assets less other liabilities for continuing operations	(443)	(412)	(401)
Capital employed for continuing operations	1 816	1 696	1 759
Capital employed related to discontinued operations	—	—	—
Capital employed	1 816	1 696	1 759
Return on average capital employed for continuing operations (%)¹	9.6	15.3	16.7
Return on average capital employed (%)¹	9.6	15.3	16.7

¹ Return on average capital employed is calculated using the average of opening and closing capital employed.

Oil Products			Corporate and Other			Total		
1998	1997	1996	1998	1997	1996	1998	1997	1996
440	399	182	19	28	(11)	845	940	750
(9)	(77)	25	(300)	165	(45)	(301)	43	(52)
431	322	207	(281)	193	(56)	544	983	698
-	-	-	-	-	-	-	-	86
431	322	207	(281)	193	(56)	544	983	784
(171)	(150)	(160)	(116)	(18)	(4)	(796)	(520)	(442)
-	-	-	-	-	-	-	-	520
(14)	27	41	31	(16)	1	184	154	107
8	5	36	(238)	(1 194)	(278)	(226)	(1 188)	(223)
254	204	124	(604)	(1 035)	(337)	(294)	(571)	746
3 492	3 414	3 317	200	140	111	7 797	7 360	7 194
1 932	1 879	1 790	73	70	80	3 851	3 647	3 476
1 560	1 535	1 527	127	70	31	3 946	3 713	3 718
206	205	162	483	435	1 139	246	228	900
1 766	1 740	1 689	610	505	1 170	4 192	3 941	4 618
-	-	-	-	-	-	-	-	(45)
1 766	1 740	1 689	610	505	1 170	4 192	3 941	4 573
15.7	14.7	4.3	-	-	-	12.6	13.5	8.8
15.7	14.7	4.3	-	-	-	12.6	13.5	14.8

Oil Sands capital activities are as follows: capital expenditures were \$57 million in 1998 (1997 – \$15 million); capital employed at the end of 1998 was \$92 million (1997 – \$37 million).

3. CAPITAL STOCK

Shell Canada Limited carries on business under the Canada Business Corporations Act. All classes of shares are without nominal or par value and are authorized in unlimited number. The holder of the four per cent Preference Shares receives fixed, cumulative dividends of \$40,000 per annum. The Preference Shares may be redeemed at the amount paid up thereon plus accrued dividends.

In July 1998, the Corporation announced its intention to make a normal course issuer bid to repurchase for cancellation up to one per cent of its 290,167,640 Class "A" Common Shares issued and outstanding as at July 28, 1998. The bid is to counter current and potential dilution of the common shares under Shell's employee stock option program. The bid began on August 17, 1998, and will end on or before August 16, 1999. At year-end, 1,000,800 shares had been repurchased at market prices for a total cost of \$24 million.

At December 31, 1998, Shell had 1,614,569 options outstanding for the purchase of common shares that have an average issue price of \$18.46.

In the second quarter of 1997, the Corporation purchased 15,999,784 of its Class "A" Common Shares (14 per cent of the total) at a price of \$61.00 a share for a total cost of \$976 million. The purchase included 12,533,907 shares under the proportionate tender option, which allowed shareholders to retain the same percentage ownership interest in the Corporation as they had previously held. The remaining 3,465,877 shares were purchased under the auction tender option, which established the purchase price.

On June 30, 1997, the Class "A" Common Shares of the Corporation were split on a three-for-one basis.

4. INCOME TAXES

The income tax provisions included in the determination of earnings are developed by applying Canadian federal and provincial statutory tax rates to pre-tax earnings, with adjustments as set out in the following table:

(\$ millions)	1998	1997	1996
Earnings from continuing operations before income taxes	651	864	525
Basic corporate tax rate (%)	43.6	44.3	44.3
Income taxes at basic rate	284	383	233
Increases (decreases) resulting from:			
Crown royalties and other payments to provinces	55	80	54
Resource allowance and other abatement measures	(55)	(77)	(73)
Manufacturing and processing credit	(29)	(26)	(19)
Other, including revisions in previous tax estimates	(36)	(19)	4
Total	219	341	199

During 1997, the Corporation received a tax refund and related interest of \$200 million towards final settlement. The settlement is associated with a number of tax issues from the years 1971 to 1991, and includes \$149 million in taxable interest. The largest portion of the settlement results from the 1992 decision by the Federal Court of Appeal in *The Queen v. Gulf Canada Limited*. A portion of the settlement was recognized in earnings in prior years, with \$67 million after tax included in 1997 earnings.

5. TAXES, ROYALTIES AND OTHER

The following amounts were included in the determination of earnings:

(\$ millions)	1998	1997	1996
Items reported separately:			
Income taxes	219	341	199
Items included in sales and other operating revenues and in operating, selling and general expenses:			
Crown royalties and mineral taxes	121	187	129
Royalties paid to private leaseholders	23	22	24
Other taxes	58	67	63
Research and development expense	17	17	16
Total	438	634	431

6. LONG-TERM DEBT

(\$ millions)	Maturity	1998	1997	1996
Debentures				
7 ³ / ₈ % (U.S. \$250)	1999	383	358	343
8 ⁷ / ₈ % (U.S. \$300)	2001	460	429	411
Capital Leases	varying dates	18	19	20
		861	806	774
Included in current liabilities (1998 includes \$17 million of unamortized foreign exchange loss)		(367)	(1)	(6)
Unamortized balance of foreign exchange loss		(69)	(65)	(52)
Total		425	740	716

The Corporation has the majority of its debt payable in U.S. dollars in order to offset some of the exposure to fluctuations in U.S. dollar exchange rates on commodity prices.

To hedge interest rates:

- The Corporation has entered into a forward interest rate swap arrangement, which commenced June 1992, for seven years, to permit U.S. \$100 million refinancing at a fixed rate of approximately nine per cent on a semi-annual basis. This arrangement was offset in June 1996 with an interest rate swap arrangement whereby the effective interest cost is payable at a floating rate.
- The Corporation has entered into an interest rate swap arrangement through which the effective interest cost is currently payable at a floating rate below the coupon rate.
- The Corporation has entered into three interest rate swap arrangements for U.S. \$200 million through which the effective interest cost is currently payable at a floating rate below the coupon rate.

Of the \$861-million long-term debt, the payments necessary during the next five years are as follows:

\$ 384 million in 1999
 \$ 2 million in 2000
 \$ 462 million in 2001
 \$ 2 million in 2002
 \$ 2 million in 2003.

7. SITE RESTORATION AND OTHER LONG-TERM OBLIGATIONS

(\$ millions)	1998	1997	1996
Site restoration ¹	78	93	111
Other postemployment benefits	89	76	72
Other obligations	42	48	55
	209	217	238
Included in current liabilities	(21)	(28)	—
Total	188	189	238

¹ Site restoration expenditures for 1998 were \$19 million (1997 – \$22 million; 1996 – \$11 million).

8. FINANCIAL INSTRUMENTS

(\$ millions)	Market Value ¹			Unrealized Gain/(Loss) ²		
	1998	1997	1996	1998	1997	1996
Commodity contracts	31	5	77	(3)	—	(7)
Foreign exchange contracts	76	76	78	5	2	(1)

(\$ millions)	Market Value ¹			Carrying Value		
	1998	1997	1996	1998	1997	1996
Interest rate swaps	11	2	(1)	—	—	—
Long-term debt ³	917	864	818	792	741	722

¹ Market value is determined primarily by market quotes. The reported amounts of financial instruments such as cash equivalents, marketable securities and short-term debt approximate fair value.

² Unrealized gain/(loss) represents the gain or (loss) the Corporation would incur if the contract was liquidated at December 31.

³ Long-term debt includes the current portion.

Commodity contracts are used by the Corporation to reduce the risk of price fluctuations of some commodities. Over-the-counter contracts with terms generally no longer than one year are used. At December 31, commodity contracts outstanding were:

(\$ millions except as noted)	1998		1997		1996	
	Face Value	Volume ⁴	Face Value	Volume ⁴	Face Value	Volume ⁴
Crude oil sales commitments	6	440	1	42	33	1 050
Crude oil and refined products purchase commitments	2	—	2	—	4	193
Natural gas sales commitments	24	10	3	2	31	20

⁴ Crude oil and refined product volumes are thousands of barrels and natural gas volumes are billions of cubic feet. Where the Corporation has entered into offsetting positions, the volume has been excluded.

The Canadian/U.S. dollar exchange rate affects a portion of the Corporation's anticipated revenues and expenses. In order to reduce this foreign exchange exposure, the Corporation has implemented a hedging program using foreign spot and forward exchange contracts and swaps. The Corporation uses forward contracts with maturities generally less than one year.

Interest rate and currency swaps are used to manage exposure to interest rate and currency rate changes. The Corporation uses arrangements with maturities no longer than the underlying debt instrument (Note 6).

Nonperformance by the other parties to the financial instruments exposes the Corporation to credit loss. The counterparties are generally international and domestic banks with credit ratings of AA or better and there is no significant concentration of credit risk held with any one institution. The Corporation does not anticipate nonperformance by the counterparties.

9. EMPLOYEE FUTURE BENEFITS

Employees participate in the Corporation's defined contribution plan for the first 10 years of service. After 10 years, employees can elect to participate in the Corporation's defined benefit pension plan. Benefits from this pension plan are Company-paid and are based on years of service and final average earnings. In addition to the pension plans, life insurance and supplementary health and dental coverage benefits are provided to retirees.

The benefit obligations and pension expense have been determined in accordance with generally accepted accounting principles and actuarial procedures. Pension fund assets comprise primarily common shares, fixed income securities and real estate.

Status at December 31 was as follows:

Obligations (\$ millions)	1998	1997	1996
Accumulated benefit obligation – pension	1 287	1 215	1 211
Additional benefits related to projected pay increases	33	31	33
Total projected benefit obligation	1 320	1 246	1 244
Plan assets at five-year moving average of market value	1 625	1 600	1 453
Net (<i>surplus</i>) for pension benefits	(305)	(354)	(209)
Obligation for other employee future benefits	89	76	72
Net (<i>surplus</i>)	(216)	(278)	(137)

Net (<i>Surplus</i>) Obligation (\$ millions)	1998	1997	1996
Long-term receivable	(56)	(18)	–
Prepaid assets	(81)	(74)	(66)
Unrecorded assets – net ¹	(168)	(262)	(143)
Net (<i>surplus</i>) for pension benefits	(305)	(354)	(209)
Current liability	4	4	–
Long-term liability	85	72	72
Total obligation for other employee future benefits	89	76	72

¹ Unrecorded assets are amortized over the expected average remaining service life of employees, which is currently 10 years (1997 – 11 years; 1996 – 11 years).

Expenses (\$ millions)	1998	1997	1996
Benefits earned during the year	15	15	15
Interest cost	107	101	102
Actual (<i>return</i>) on plan assets	(126)	(221)	(251)
Net amortization and deferral	(35)	87	145
Net pension (<i>income</i>) expense	(39)	(18)	11
Defined contribution plan	4	6	6
Other employee future benefits expense	18	8	8
Total	(17)	(4)	25

The assumptions used for employee future benefits were as follows:

(per cent)	1998	1997	1996
Discount rate	8.5	8.5	8.5
Long-term rate of return on plan assets	8.5	8.5	8.5
Rate of compensation growth	4.0	4.0	4.0

10. TRANSACTIONS WITH AFFILIATED COMPANIES

Shell Canada, in the course of its regular business activities, has routine transactions with affiliates. Such transactions are at commercial rates. The following transactions occurred with Shell International Trading Company and other affiliates of the Royal Dutch/Shell Group of Companies as at December 31:

(\$ millions)	1998	1997	1996
Purchases of crude oil, petroleum products and chemicals	791	1 136	1 158
Amounts payable in respect of such purchases	68	70	54
Sale of natural gas, petroleum products and chemicals	621	474	44
Sales related to discontinued operations	—	—	209
Amounts receivable in respect of such sales	79	69	3

The only material product purchase is crude oil, which comprises 91 per cent of total affiliated company purchases.

In May 1998, the Corporation purchased the shares of a related party for \$108 million. As a result of this acquisition, Shell Canada is able to use income tax deductions of the acquired company. The purchase price was established, independently verified and agreed to by the related parties.

Shell Canada sold its natural gas marketing business on April 1, 1997, to an entity owned 44 per cent by a related party. In return, the Corporation obtained 12 per cent ownership in the entity. As of June 1, 1997, the Corporation began selling its gas production to the entity at Alberta prices. The related party increased its holding in the entity to 88 per cent on January 12, 1998. Shell Canada's holding remains unchanged.

The Corporation sold its Chemicals business effective December 31, 1996, to Shell Chemicals Canada Ltd., a company owned 100 per cent by a related party. The selling value was established, independently verified and agreed to by the related parties. This transaction resulted in a gain of \$226 million after tax. The results of the sale have been accounted for as discontinued operations.

In December 1996, Shell Canada purchased the shares of Shell Investments Limited for \$3 million from Shell Petroleum N.V. As a result of this acquisition, the Corporation was able to use income tax deductions of the acquired company.

11. COMMITMENTS AND CONTINGENCIES

At December 31, 1998, the Corporation had non-cancellable operating and other long-term commitments with an initial or remaining term of one year or more. Future minimum payments under such commitments are estimated to be:

(\$ millions)	Operating Commitments ¹	Other Long-term Commitments ²
1999	68	376 ³
2000	58	157 ³
2001	51	95
2002	47	82
2003	40	63
thereafter	254	181

¹ These operating commitments cover leases of service stations, office space and other facilities.

² The Corporation has substantial commitments for the use of facilities or services and supply and processing of products, all made in the normal course of business.

³ Includes obligations for the Sable Offshore Energy Project of \$281 million and \$68 million for 1999 and 2000 respectively.

Various lawsuits are pending against the Corporation. Actual liability with respect to these lawsuits cannot be determined, but management believes, based on counsels' opinions, that any potential liability will not materially affect the Corporation's financial position.

12. YEAR 2000 UNCERTAINTY

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Therefore, some date-sensitive systems may fail to recognize the year 2000. As a result, many computer systems, applications and field equipment that use two digits to identify the year may produce errors when they try to process this information. In addition, similar problems may arise in some systems that use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 issue may be experienced before, on, or after January 1, 2000. If this issue is not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure, which could affect the Corporation's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 issue will be fully resolved, including those aspects related to compliance of customers, suppliers or other third parties. The total costs associated with these compliance activities, which will be completed by mid-year 1999, are expected to be less than \$10 million before income tax.

13. DISCONTINUED OPERATIONS

The Corporation sold its Chemicals business effective December 31, 1996, to Shell Chemicals Canada Ltd. The sale of the Chemicals business resulted in a gain of \$324 million before tax, or \$226 million after tax. The results of the Chemicals business have been accounted for as discontinued operations and previously reported financial statements have been restated. The Corporation was able to take advantage of capital losses, which it acquired on the amalgamation of a related company, reducing the taxes on the gain.

(\$ millions)	1998	1997	1996
Revenues from discontinued operations	—	—	606
Earnings from discontinued operations before income taxes	—	—	66
Income taxes	—	—	23
Earnings from discontinued operations	—	—	43
Gain on disposals before income taxes	—	—	324
Income taxes	—	—	98
Gain on disposals after income taxes	—	—	226
Total	—	—	269

The consolidated balance sheet includes the following amounts applicable to the Chemicals business:

(\$ millions)	1998	1997	1996
Current assets	—	—	24
Current liabilities	—	—	69
Net investment	—	—	(45)

Supplemental Oil Products Disclosure (unaudited)

Year ended December 31

PRODUCTION <small>(thousands of cubic metres/day)</small>	1998	1997	1996	1995	1994
Crude Oil Processed by Shell Refineries					
Montreal East <i>(Quebec)</i>	18.0	17.5	17.5	16.7	17.4
Sarnia <i>(Ontario)</i>	9.7	10.1	10.1	9.7	9.9
Scotford <i>(Alberta)</i>	14.1	13.6	12.8	12.5	11.5
Total	41.8	41.2	40.4	38.9	38.8
Rated Refinery Capacity at Year-End					
Montreal East <i>(Quebec)</i>	20.6	20.6	20.6	20.0	20.0
Sarnia <i>(Ontario)</i>	11.4	11.4	11.4	11.4	11.4
Scotford <i>(Alberta)</i>	15.0	14.2	12.5	12.0	12.0
Total	47.0	46.2	44.5	43.4	43.4
SALES <small>(thousands of cubic metres/day)</small>	1998	1997	1996	1995	1994
Gasolines	20.6	19.9	19.4	19.1	18.7
Middle distillates	17.0	16.8	16.7	15.2	15.0
Other products	7.4	7.7	7.4	6.7	6.7
Total	45.0	44.4	43.5	41.0	40.4

Supplemental Resources Disclosure (unaudited)

Year ended December 31

PRODUCTION	1998	1997	1996	1995	1994
Natural gas <i>(millions of cubic feet/day)</i>					
Gross	587	667	697	696	731
Net	463	571	601	586	607
Crude oil and bitumen <i>(thousands of barrels/day)</i>					
Gross	22.9	26.5	29.7	28.1	29.4
Net	20.4	21.6	25.0	23.9	24.0
Condensate <i>(thousands of barrels/day)</i>					
Gross	24.9	24.6	24.9	22.7	21.2
Net	20.2	20.3	22.3	20.7	19.0
Ethane, propane and butane <i>(thousands of barrels/day)</i>					
Gross	30.8	31.3	32.6	28.9	26.8
Net	26.8	26.5	29.5	26.4	23.0
Sulphur – gross <i>(thousands of long tons/day)</i>	6.6	6.6	6.4	6.2	6.3

Gross production includes all production attributable to Shell's interest before deduction of royalties; net production is determined by deducting royalties from gross production.

SALES	1998	1997	1996	1995	1994
Natural gas – gross <i>(millions of cubic feet/day)</i>	593	704	831	750	764
Crude oil and bitumen – gross <i>(thousands of barrels/day)</i>	25.2	29.9	33.5	31.5	31.2
Condensate – gross <i>(thousands of barrels/day)</i>	36.3	33.4	32.9	36.3	21.9
Ethane, propane and butane – gross <i>(thousands of barrels/day)</i>	64.2	63.7	68.9	69.6	36.0
Sulphur – gross <i>(thousands of long tons/day)</i>	8.0	7.4	7.9	6.6	5.1

PRICES	1998	1997	1996	1995	1994
Natural gas average plant gate netback price <i>(\$/mcf)</i>	1.89	1.86	1.69	1.50	2.02
Crude oil average field gate price <i>(\$/bbl)</i>	18.83	25.80	26.14	22.01	19.02
Condensate average field gate price <i>(\$/bbl)</i>	18.54	26.74	25.55	19.17	16.64
Ethane, propane and butane average field gate price <i>(\$/bbl)</i>	7.25	10.93	10.02	7.50	7.18

EXPLORATION AND DEVELOPMENT WELLS DECLARED

	1998		1997		1996		1995		1994	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Exploration										
Oil	2	2	3	3	8	4	5	3	3	1
Gas	6	3	2	2	—	—	4	3	1	1
Dry	12	8	8	6	14	11	7	6	5	3
	20	13	13	11	22	15	16	12	9	5
Development										
Oil	24	14	49	22	36	20	69	25	50	20
Bitumen	17	17	10	10	11	11	4	4	—	—
Gas	7	6	11	8	8	6	4	3	4	3
Dry	—	—	2	1	1	1	—	—	—	—
	48	37	72	41	56	38	77	32	54	23
Total wells declared	68	50	85	52	78	53	93	44	63	28
Wells in progress	24	21	24	20	21	19	17	13	12	5

Exploration wells – Wells drilled either in search of new and as yet undiscovered pools of oil or gas, or with the expectation of significantly extending the limits of established pools. All other wells are development wells.

PRODUCTIVE WELLS

	1998		1997		1996		1995		1994	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Oil Wells										
Alberta – conventional	244	128	258	133	346	181	425	176	419	171
Alberta – bitumen	199	199	186	186	181	181	173	173	160	160
Saskatchewan	281	191	292	197	981	387	952	374	1 027	340
	724	518	736	516	1 508	749	1 550	723	1 606	671
Gas Wells										
Alberta	254	220	253	216	289	220	371	233	366	229
British Columbia	—	—	6	5	8	6	8	6	2	2
Saskatchewan	—	—	—	—	—	—	5	2	5	2
	254	220	259	221	297	226	384	241	373	233
Total productive wells	978	738	995	737	1 805	975	1 934	964	1 979	904

Productive wells – Producing and non-unitized wells capable of producing.

Gross wells – The number of wells in which Shell Canada has a working interest.

Net wells – The aggregate of the numbers obtained by multiplying each gross well by the percentage working interest of Shell Canada therein, rounded to the nearest whole number.

OIL AND GAS LANDHOLDINGS

At December 31 (thousands of acres)	Undeveloped Acres				Developed Acres			
	1998		1997		1998		1997	
Onshore Within the Provinces	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Conventional oil and gas:								
Alberta	755	517	468	359	809	552	1 071	728
British Columbia	262	183	172	143	2	1	327	213
Saskatchewan	10	8	—	—	65	39	57	43
Quebec	2 645	236	1 408	1 408	—	—	—	—
Synthetic oils:								
– mining	—	—	—	—	97	97	96	96
– in-situ	—	—	—	—	240	240	237	237
	3 672	944	2 048	1 910	1 213	929	1 788	1 317
Canada Lands								
East Coast offshore:								
Nova Scotia	368	151	419	172	109	44	—	—
Baffin Bay	2 132	2 132	2 132	2 132	—	—	—	—
Northwest Territories	103	64	298	255	—	—	—	—
Moncton Basin	61	61	—	—	—	—	—	—
West Coast offshore	13 585	12 854	13 585	12 854	—	—	—	—
Arctic Islands	152	30	152	30	—	—	—	—
Hudson Bay	3 483	930	3 483	930	—	—	—	—
	19 884	16 222	20 069	16 373	109	44	—	—
Total	23 556	17 166	22 117	18 283	1 322	973	1 788	1 317

Gross acres include the interests of others; net acres exclude the interests of others.

Undeveloped acres, comprising Crown reservations, permits, exploration agreements and licences, are acquired from the Government of Canada or the provinces through application or competitive bidding. They confer upon the holder the right to explore for crude oil and natural gas and to lease the crude oil and natural gas rights under a specified percentage of the lands covered. No deduction has been made to reflect that only a portion of these areas may be converted to lease.

Developed acre leases essentially confer upon the lessee the right to remove crude oil and natural gas from the property, subject to the payment of a rental and/or a reserved royalty.

Of the total developed acres, approximately 399,000 gross acres (1997 – 451,000) or 256,000 net acres (1997 – 232,000) in Western Canada, primarily in Alberta, are classified as producing lands.

RESERVES

Reserve Quantity Information Estimation of reserve quantities is based on established geological and engineering principles and involves judgmental interpretation of reservoir data. These estimates are subject to revision as additional information regarding producing fields and technology becomes available, as economic and operating conditions change, or as properties are divested or acquired. The difference between the gross and net reserves is the volume of reserves dedicated to meet royalty payments over the life of the reserves. The net reserves in the table below have been calculated on the basis of royalty rates and economic conditions in place as of the date the estimate is made. Shell Canada's estimated proved reserves include quantities for the East Coast but exclude any quantities in the Mackenzie Delta and Arctic Islands.

Crude Oil and Bitumen Overall, Shell's net crude oil and bitumen reserves at year-end 1998 remained unchanged from 1997 levels. Shell's net crude oil reserves increased by two million barrels, as positive revisions replaced crude oil production in 1998. These revisions resulted from the successful application of perpendicular well technology at Midale and the extension of the current enhanced oil recovery scheme at Virginia Hills. Bitumen reserves declined by two million barrels, representing annual production.

PROVED RESERVES	Crude Oil and Bitumen (millions of barrels)		
	1998	1997	1996
Net Proved Developed and Undeveloped Reserves			
Beginning of year	170	153	105
Revisions of previous estimates	7	13	(9)
Extensions, discoveries and other additions	—	24	2
Improved recovery methods	—	—	65
Purchases of reserves in place	—	—	—
Sales of reserves in place	—	(12)	(1)
Production	(7)	(8)	(9)
End of year	170	170	153
Net Proved Developed Reserves			
End of year	56	62	68
Gross Proved Developed and Undeveloped Reserves			
End of year	185	186	193
Gross Proved Developed Reserves			
End of year	63	70	85

Proved reserves — Estimated quantities of crude oil and bitumen, natural gas liquids, natural gas and sulphur that geological engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs. These estimates are based on existing economic and operating conditions (prices, costs, royalties and income taxes) as of the date the estimate is made.

Proved developed reserves — Reserves that can be expected to be recovered through existing wells with existing equipment and operating methods.

Natural Gas Liquids Net condensate reserves declined by seven million barrels due to production during the year. Net reserves of ethane, propane and butane declined by 22 million barrels in 1998 as a result of production and negative revisions to previous reserve estimates at Caroline and Waterton.

Natural Gas Net natural gas reserves declined by 239 billion cubic feet by year-end 1998. Factors contributing to the decline include the sale of Shell's remaining interest in northeastern British Columbia, a negative reserve revision at Waterton and the impact on royalties of higher natural gas prices. Offsetting these factors were the booking of additional reserves resulting from a step-out well program at Wildcat Hills, discoveries at Nig, Ring, Simonette and Gregg Lake and positive revisions to previous estimates at Moose/Whiskey, Jumping Pound, Caroline and Limestone.

Sulphur Net sulphur reserves declined by three million tons primarily due to 1998 production.

Natural Gas Liquids (millions of barrels)			Natural Gas (billions of cubic feet)			Sulphur (millions of long tons)		
1998	1997	1996	1998	1997	1996	1998	1997	1996
212	161	211	3 010	2 053	2 411	24	24	27
(12)	25	(32)	(100)	237	(233)	—	2	(1)
—	32	1	80	637	133	—	—	—
—	—	1	—	—	—	—	—	—
—	13	—	—	340	—	—	—	—
—	(2)	(1)	(50)	(48)	(38)	—	—	—
(17)	(17)	(19)	(169)	(209)	(220)	(3)	(2)	(2)
183	212	161	2 771	3 010	2 053	21	24	24
137	129	119	1 534	1 662	1 511	20	18	17
206	235	197	3 256	3 399	2 628	23	26	26
157	147	147	1 873	1 911	1 938	21	20	21

Proved undeveloped reserves — Reserves that are expected to be recovered from new wells on undrilled acreage adjacent to producing acreage, or from existing wells where further significant expenditure is required.

Gross proved reserves — Reserve estimates before the deduction of royalty interests owned by others.

Net proved reserves — Reserve estimates after deduction of royalties and therefore only those quantities which Shell has a right to retain.

Supplemental Financial Data (unaudited)

DATA PER COMMON SHARE¹ <small>(dollars except as noted)</small>	1998	1997	1996	1995	1994
Earnings from continuing operations	1.49	1.69	0.96	0.90	0.66
Earnings	1.49	1.69	1.77	1.55	0.95
Cash flow from continuing operations	2.91	3.03	2.22	2.14	1.99
Dividends paid	0.72	0.66	0.60	0.50	0.33
Common shareholders' investment	11.75	11.03	11.41	10.24	9.18
Common shares outstanding at year-end <small>(millions)</small>	289	290	338	336	336
Registered shareholders <small>(number at year-end)</small>	3 161	3 257	3 398	3 622	4 378

¹ All data has been restated to reflect the impact of the June 30, 1997, three-for-one stock split.

RATIOS	1998	1997	1996	1995	1994
Return on average capital employed (%) ¹	12.6	13.5	14.8	14.1	9.3
Return on average capital employed from continuing operations (%) ¹	12.6	13.5	8.8	9.3	7.5
Return on net investment (%) ²	10.6	10.9	11.9	11.4	7.8
Return on average common shareholders' equity (%) ³	13.1	14.8	16.3	16.0	10.7
Return on average common shareholders' equity from continuing operations (%) ³	13.1	14.8	8.9	9.2	7.5
Common share dividends as % of earnings from continuing operations ⁴	48.3	39.3	62.1	55.7	50.4
Price earnings ratio ⁵	15.6	15.2	10.1	9.2	15.0
Current assets to current liabilities	1.6	2.0	3.0	2.1	1.4
Interest coverage from continuing operations ⁶	10.3	14.2	9.0	6.8	4.6
Reinvestment ratio from continuing operations (%) ⁷	94.3	57.5	59.0	53.5	40.4
Total debt as % of capital employed ⁸	18.9	18.8	15.8	17.2	23.0
Debt to cash flow from continuing operations (%) ⁹	93.7	78.8	96.4	99.0	137.8

¹ Earnings plus after-tax financing expense on debt divided by average of opening and closing capital employed. Capital employed is a total of equity and long-term debt including the current portion of long-term debt.

² Earnings plus after-tax financing expense on long-term debt divided by average net investment. Net investment is total assets less current liabilities. Return on net investment is calculated using the average of opening and closing net investment.

³ Earnings are divided by average common shareholders' investment.

⁴ Common share dividends paid divided by earnings from continuing operations.

⁵ Closing share price at December 31 divided by earnings per share.

⁶ Pre-tax earnings from continuing operations plus interest on debt divided by interest on debt.

⁷ Capital, exploration and investment expenditures divided by cash flow from continuing operations.

⁸ Total debt divided by total debt plus equity.

⁹ Total debt divided by cash flow from continuing operations.

EMPLOYEES	1998	1997	1996	1995	1994
Employees <small>(number at year-end)</small>	3 644	3 593	3 710	3 918	4 391

Quarterly Financial and Stock-Trading Information (unaudited)

Earnings (\$ millions except as noted)	1998					1997				
	1st	2nd	3rd	4th	Total Year	1st	2nd	3rd	4th	Total Year
Sales and other operating revenues	1 136	1 091	1 142	1 137	4 506	1 354	1 293	1 437	1 372	5 456
Expenses	942	911	1 031	971	3 855	1 091	1 102	1 170	1 229	4 592
Earnings before income taxes	194	180	111	166	651	263	191	267	143	864
Income taxes	79	54	35	51	219	111	80	100	50	341
Earnings	115	126	76	115	432	152	111	167	93	523

Segmented Earnings

Resources	58	33	30	48	169	103	47	57	57	264
Oil Products	70	65	59	81	275	62	72	73	45	252
Corporate	(13)	28	(13)	(14)	(12)	(13)	(8)	37	(9)	7
Earnings	115	126	76	115	432	152	111	167	93	523

Class "A" Common Shares (dollars)¹

Earnings per share	0.40	0.43	0.26	0.40	1.49	0.45	0.33	0.58	0.33	1.69
Cash dividends per share	0.18	0.18	0.18	0.18	0.72	0.15	0.15	0.18	0.18	0.66
Share Prices (dollars)²										
High	27.00	27.10	27.20	25.75	27.20	19.65	21.95	25.20	29.25	29.25
Low	20.50	24.55	22.00	22.85	20.50	16.90	17.35	20.05	23.00	16.90
Close (end of period)	25.00	25.80	23.95	23.25	23.25	18.50	21.00	24.40	25.70	25.70
Shares Traded (thousands)³	7 072	5 262	4 770	8 379	25 483	6 040	12 556	6 999	7 324	32 919

¹ Per share information, share prices and shares traded have been restated to reflect the impact of the June 30, 1997, three-for-one stock split.

² Toronto Stock Exchange quotations.

³ Volume traded on the Montreal and Toronto stock exchanges.

Corporate Directory and Board of Directors

OFFICERS

(all in Calgary)

CHARLES W. WILSON

President and Chief Executive Officer

VICE PRESIDENTS

ROB J. ROUTS

Senior Operating Officer, Oil Products

RAYMOND I. WOODS

Senior Operating Officer, Resources

RONALD B. BLAKELY

Chief Financial Officer

HAROLD W. LEMIEUX

General Counsel and Secretary

NEIL J. CAMARTA

Vice President, Oil Sands

J. KEVIN HOGAN

Vice President, Engineering and Construction

D. ROGER BRUNDRIT

Vice President, Plains

GRAHAM BOJÉ

Vice President, Manufacturing

GARY S. VASSIE

Vice President, Technology and Shared Services

TREASURER

CATHERINE L. WILLIAMS

CONTROLLER

IAN S. TITTLE

BOARD OF DIRECTORS

PETER J.G. BENTLEY O.C.

Chairman

Canfor Corporation

Vancouver

FERNAND R. BIBEAU

Chairman of the Board

Beauward Shopping Centres Ltd.

St-Eustache

JOHN F. FRASER O.C.

Chairman

Air Canada

Winnipeg

KERRY L. HAWKINS

President

Cargill Limited

Winnipeg

JOHN D. MCNEIL

Chairman and Director

Sun Life Assurance Company of Canada

Toronto

MARK MOODY-STUART

Chairman and Managing Director

The "Shell" Transport and Trading Company, p.l.c.

London, England

PAUL D. SKINNER

Chief Executive Officer, Oil Products

Shell International Petroleum Company Ltd.

London, England

MARGARET E. SOUTHERN O.C., L.V.O.

President

Spruce Meadows Equestrian Centre

Calgary

ROBERT T. STEWART

Retired Chairman of the Board

and Chief Executive Officer

Scott Paper Limited

Vancouver

CHARLES W. WILSON

President and Chief Executive Officer

Shell Canada Limited

Calgary

Statement of Corporate Governance Practices

The Corporation is aligned with the guidelines recommended by the Toronto and Montreal stock exchanges for effective corporate governance. The one exception is the guideline to implement a system to enable an individual director to engage an outside adviser at the expense of the Corporation. It is the Board's view that any situations which require outside advice should be handled case by case.

THE BOARD OF DIRECTORS

The Board of Directors is responsible for ensuring that the business and affairs of the Corporation are managed properly to protect and enhance shareholder value. In discharging its responsibility of stewardship, the Board oversees the following:

- *strategic plan, operating plan, capital and exploration budget and financial goals;*
- *implementation of management systems to identify and manage the principal risks of the Corporation's business;*
- *succession plans and management development;*
- *shareholder communications;*
- *the integrity of the Corporation's internal control systems.*

The Board is composed of 10 directors. Nine of the 10 directors are unrelated to the Corporation, as defined in the stock exchange guidelines. The guidelines define an unrelated director as one who is "independent of management and is free from any interest and business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act with a view to the best interests of the Corporation, other than interests and relationships arising from shareholding." The one related director is the President and Chief Executive Officer, C.W. Wilson. The Corporation has a significant shareholder, but seven of the 10 directors have no interests in or relationships with either the Corporation or the significant shareholder. The Board believes this fairly reflects the investment of minority shareholders.

The Chairman of the meetings of the Board is a separate role from the President and Chief Executive Officer.

The Board acts independently of management. The Board has delegated financial authority to management, subject to specified limitations. All transactions in excess of those limitations must be submitted to the Board for approval. The Board retains responsibility for all matters not specifically delegated to management or a committee of the Board.

The Board held seven meetings during 1998.

The Board has adopted a Statement of General Business Principles, which all employees are expected to observe in the conduct of the Corporation's business dealings. The Board expects management to manage the business of the Corporation in a manner that enhances shareholder value, is consistent with the highest level of integrity and within the law. Management is expected to execute the Corporation's long-term plans, to meet performance goals and objectives and to provide reports at each Board meeting on the financial and operating (including health, safety and sustainable development) performance of the Corporation.

The Nominating and Governance Committee assesses annually the performance of the Board and its committees, and considers a list of potential candidates for directorship. The Corporation has an extensive orientation program for new directors.

The Investor Relations manager and senior management communicate with significant shareholders, institutional investors and the financial community. Shareholder account inquiries are handled by the Corporation's transfer agent or the Corporate Secretary's department. Inquiries from shareholders and the public receive a response from the Public Affairs department, the Investor Relations department, the Corporate Secretary's department or the appropriate member of senior management.

BOARD COMMITTEES

The Board has three committees: the Audit Committee, the Management Resources and Compensation Committee and the Nominating and Governance Committee. All members of the committees are outside directors and unrelated to the Corporation.

AUDIT COMMITTEE

The members of the Audit Committee are P.J.G. Bentley (Chairman), J.F. Fraser, K.L. Hawkins, M.E. Southern and R.T. Stewart.

The committee's mandate includes:

- *reviewing the annual audited financial statements and the Auditors' Report on the statements prior to submission to the Board for approval;*
- *reviewing the scope of external and internal audits;*
- *reviewing and discussing accounting and reporting policies and changes in accounting principles;*
- *reviewing the Corporation's internal control systems and procedures;*
- *meeting with the external auditors independently of management of the Corporation.*

The Audit Committee met twice in 1998.

MANAGEMENT RESOURCES AND COMPENSATION COMMITTEE

The members of the Management Resources and Compensation Committee are J.D. McNeil (Chairman), P.J.G. Bentley, F.R. Bibeau and J.F. Fraser.

The committee's mandate includes:

- *determining compensation and terms of employment for senior executives, including stock option and incentive programs;*
- *approving pension and benefit plans of the Corporation;*

- *reviewing executive succession and development plans and recommending to the Board candidates for election as officers of the Corporation;*
- *assessing at least annually the performance of the President and Chief Executive Officer and determining his or her compensation and terms of employment.*

The Management Resources and Compensation Committee met three times in 1998.

NOMINATING AND GOVERNANCE COMMITTEE

The members of the Nominating and Governance Committee are J.F. Fraser (Chairman), P.J.G. Bentley, F.R. Bibeau and R.T. Stewart.

The committee's mandate includes:

- *determining criteria for being a director and assisting the Chief Executive Officer in selecting new candidates for the Board;*
- *reviewing and recommending to the Board criteria related to the tenure of directors;*
- *annually reviewing the performance of the Board and committees of the Board;*
- *annually reviewing memberships of the committees and making recommendations to the Board on appointments to the committees;*
- *reviewing and making recommendations to the Board on the mandates of committees of the Board;*
- *determining remuneration to be paid to directors for sitting on the Board and committees;*
- *reviewing and making recommendations to the Board on corporate governance;*
- *administering the Director Share Compensation Plan.*

The Nominating and Governance Committee met twice in 1998.

Investor Information

Shell Canada Limited

(incorporated under the laws of Canada)

Head Office

Shell Centre
400 – 4th Avenue S.W.
Calgary, Alberta T2P 0J4
Website: www.shell.ca

Transfer Agent and Registrar

CIBC Mellon Trust Company
600, 333 – 7th Avenue S.W.
Calgary, Alberta T2P 2Z1

Telephone: (403) 232-2400
Facsimile: (403) 264-2100

E-Mail: inquiries@cibcmellon.ca
Website: www.cibcmellon.ca
Answerline: 1-800-387-0825

Stock Exchange Listings

The Class “A” Common Shares of Shell Canada Limited are listed on the Montreal and Toronto stock exchanges (stock symbol SHC), and do not have an established public trading market in the United States.

Annual Meeting

The annual meeting of shareholders will be held at 11:00 a.m., Wednesday, April 28, 1999, in the Crystal Ballroom, The Palliser Hotel, Calgary, Alberta.

Duplicate Reports

Shareholders who receive more than one copy of the Quarterly Report to Shareholders and the Annual Report, as a result of having their shareholdings represented by two or more share certificates, may wish to contact the transfer agent to have their holdings consolidated. It will not be necessary to forward share certificates.

Annual Information Form and Progress Toward Sustainable Development

The Corporation's Annual Information Form for 1998 and the publication “Progress Toward Sustainable Development” are available to shareholders on request from the Corporation's Secretary at Shell's head office.

Ownership and Voting Rights of Shell Canada Limited

(at December 31, 1998)

Ownership of Shell Canada Limited is divided between Shell Investments (1996) Limited and public shareholders. Shell Investments (1996) Limited holds approximately 78 per cent of the equity and voting rights.

The publicly held Class “A” Common Shares (approximately 63.5 million) constitute about 22 per cent of the equity and voting rights in the Corporation.

Shell Investments (1996) Limited is a Canadian company, wholly owned by Shell Petroleum N.V. of the Netherlands which, in turn, is owned 40 per cent by The “Shell” Transport and Trading Company, p.l.c., an English company, and 60 per cent by Royal Dutch Petroleum Company of the Netherlands.

Approximate Conversion Factors

1 cubic metre of liquids	=	6.29 barrels
1 cubic metre of gases	=	35.3 cubic feet
1 barrel-of-oil equivalent	=	6,000 cubic feet of gases
1 tonne	=	2,205 pounds
	=	0.984 long ton
	=	1.102 short tons
1 kilometre	=	0.621 mile
1 hectare	=	2.47 acres
1 litre	=	0.22 gallon

This Annual Report is recyclable and has been printed using vegetable-based inks. The paper used for the cover and front section contains a minimum of 10 per cent post-consumer fibre and the paper for the back section contains 30 per cent post-consumer fibre and is acid free.



Shell Canada Limited

For information:

Investor Relations
Shell Canada Limited
Shell Centre
400 - 4th Avenue S.W.
Calgary, Alberta T2P 0J4
Telephone: (403) 691-2175